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CARIBBEAN BASIN INITIATIVE

HEARING

BEFORE THE

COMMITTEE ON ENERGY AND NATURAL RESOURCES UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

ON THE

CARIBBEAN BASIN INITIATIVE AND ITS RELATION TO THE UNITED STATES TERRITORIES AND INSULAR AREAS

JUNE 10, 1983

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CARIBBEAN BASIN INITIATIVE

THURSDAY, JUNE 10, 1983

U. S. SENATE,
COMMITTEE ON ENERGY AND NATURAL RESOURCES,
Washington, D.C.

The committee met, pursuant to notice, at 9:30 a.m., in room SD-366, Dirksen Office Building, Hon. Lowell P. Weicker, Jr. presiding.

Present: Senators Weicker and Hecht.

Also present: James P. Beirne, counsel; and D. Michael Harvey, chief counsel for the minority.

OPENING STATEMENT OF HON. LOWELL P. WEICKER, JR., A U.S. SENATOR FROM THE STATE OF CONNECTICUT

Senator WEICKER. The hearing will come to order. I am pleased that the committee has scheduled this hearing so that important legislation, specifically the Caribbean Basin Initiative, and its relation to the U.S. territories and insular areas can be considered.

I had hoped for joint jurisdiction with the Finance Committee on this issue. While it is disappointing that the Energy Committee did not get such jurisdiction, I want to take this opportunity to make a record on behalf of the U.S. territories and insular areas which will be used if and when the Caribbean Basin Initiative is debated on the floor.

Recently as a result of my Senate responsibilities for the territories, I have had occasion to spend some time in the Eastern Caribbean and have become acquainted with the Caribbean's greatest resource—basically its very hard-working people. These people are looking forward to the passage of the Caribbean Basin Initiative with some apprehension.

Clearly there is much work to be done to improve economic conditions in the region, and many people express optimism that the CBI can lay the desperately needed foundation for that work, but there is fear that in attempting to assist our neighbors we may halt the tentative economic progress achieved by our own U.S. citizens in the Virgin Islands and Puerto Rico.

Our country benefits greatly from our political ties with those islands and the cultural diversity and vitality we derive from them. We should not overlook the role the Virgin Islands and Puerto Rico play in addressing the problems of both the English-speaking and the Spanish-speaking people of this region. These islands are viewed by Caribbean nations as representatives of the United States in the Basin. We ought to take advantage of the opportunity which our insular areas in the Caribbean provide to establish genu-

ine working relationships with other nations composed of culturally similar people.

We also must be sure in our honest efforts to assist other nations we do not do so at the expense of our own insular areas.

The purpose of this hearing is to consider how the Caribbean Basin Initiative will affect Puerto Rico and the Virgin Islands. We will also explore the extent to which the administration is taking full advantage of the contributions these U.S. insular areas can make toward fulfilling the region's hopes for the Caribbean Basin Initiative.

We have as our first witness Mr. Claud Gingrich, General Counsel, Office of the U.S. Trade Representative. Mr. Gingrich, it is a pleasure to have you before the committee. Why don't you identify the gentleman accompanying you and proceed with your testimony which will be included in the record in its entirety, and then you might want to go ahead and synopsize it.

STATEMENT OF CLAUD GINGRICH, GENERAL COUNSEL, OFFICE OF THE U.S. TRADE REPRESENTATIVE; ACCOMPANIED BY JON ROSENBAUM, ASSISTANT U.S. TRADE REPRESENTATIVE FOR THE AMERICAS

Mr. GINGRICH. Thank you, Mr. Chairman. I am accompanied today by Jon Rosenbaum, who is the Assistant U.S. Trade Representative for the Americas.

Just briefly summarizing my testimony, the administration has been asked to testify today on the impact of the Caribbean Basin Initiative on the territories of Puerto Rico and the Virgin Islands.

We believe the CBI, if the objectives of the CBI are to be successfully achieved, that the result will also be increased prosperity and security for Puerto Rico and the Virgin Islands.

In assuring that the interests of the Virgin Islands and Puerto Rico would be promoted through the CBI, we approached the problem in three ways.

We sought to establish mechanisms to offset any adverse effects that the trade and investment incentives of CBI may have on the commerce of Puerto Rico and the Virgin Islands.

Second, we have sought to promote the economic development of Puerto Rico and the Virgin Islands through measures designed to involve these territories in the private sector development strategies which have formed part of the CBI multidimensional approach to development.

And third, both Puerto Rico and the Virgin Islands have been made full partners in the Federal Government's effort to implement CBI policies.

I think that in view of the fact that my full statement will be in the record I will just leave it there and be glad to, of course, answer any questions that you have.

[The prepared statement of Mr. Gingrich follows.]

STATEMENT BY CLAUD GINGRICH

GENERAL COUNSEL

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

MR. CHAIRMAN AND MEMBERS OF THIS COMMITTEE,

THE ADMINISTRATION HAS BEEN ASKED TO TESTIFY TODAY ON THE IMPACT OF THE CARIBBEAN BASIN INITIATIVE ON THE TERRITORIES OF PUERTO RICO AND THE VIRGIN ISLANDS. THE ADMINISTRATION BELIEVES THAT IF THE OBJECTIVES OF THE CARIBBEAN BASIN INITIATIVE ARE SUCCESSFULLY ACHIEVED, THAT THE RESULT WILL BE INCREASED PROSPERITY AND SECURITY FOR PUERTO RICANS AND VIRGIN ISLANDERS ALIKE.

WHEN THE ADMINISTRATION BEGAN TO DEVELOP THE CARIBBEAN BASIN INITIATIVE, WE WERE INTENSELY AWARE OF THE NEED TO FRAME A PROGRAM WHICH SERVED THE DEVELOPMENT NEEDS OF OUR OWN CITIZENS LIVING IN THE CARIBBEAN. WE CAREFULLY CONSULTED OVER AN EXTENDED PERIOD OF TIME WITH REPRESENTATIVES OF PUERTO RICO AND THE VIRGIN ISLANDS TO ASSURE THAT THE CONTENTS OF THE PRESIDENT'S PROGRAM WOULD SATISFY THE NEEDS, AND ASSUAGE THE FEARS OF THE CITIZENS OF THESE ISLANDS.

IN ASSURING THAT THE INTERESTS OF THE VIRGIN ISLANDS AND PUERTO RICO WOULD BE PROMOTED THROUGH THE CARIBBEAN BASIN INITIATIVE, WE APPROACHED THE PROBLEM IN THREE WAYS. FIRST, WE SOUGHT TO ESTABLISH MECHANISMS TO OFFSET ANY ADVERSE EFFECTS THAT THE TRADE AND INVESTMENT INCENTIVES OF THE CBI MIGHT HAVE ON THE COMMERCE OF PUERTO RICO AND THE VIRGIN ISLANDS. SECONDLY, WE SOUGHT TO PROMOTE THE ECONOMIC DEVELOPMENT OF PUERTO RICO AND THE VIRGIN ISLANDS THROUGH MEASURES DESIGNED TO INVOLVE

THESE TERRITORIES IN THE PRIVATE SECTOR DEVELOPMENT STRATEGIES WHICH FORM PART OF THE CBI'S MULTIDIMENSIONAL APPROACH TO DEVELOPMENT. WE GAVE PARTICULAR ATTENTION TO MEANS OF FOSTERING INCREASED TRADE AND INVESTMENT BETWEEN THE CARIBBEAN BASIN BENEFICIARIES AND THE TERRITORIES. THIRD, BOTH PUERTO RICO AND THE VIRGIN ISLANDS HAVE BEEN MADE FULL PARTNERS IN THE FEDERAL GOVERNMENT'S EFFORT TO IMPLEMENT CARIBBEAN BASIN POLICIES.

OUR FIRST OBJECTIVE, AS I SAID, WAS TO MINIMIZE ANY POSSIBLE NEGATIVE IMPACT OF THE CARIBBEAN BASIN INITIATIVE ON COMMERCIAL ACTIVITY IN THE TERRITORIES. WITH RESPECT TO THE POSSIBLE NEGATIVE EFFECTS OF DUTY-FREE TREATMENT UNDER THE CBI, WE HAVE PROPOSED IN THE LEGISLATION THAT THE VIRGIN ISLANDS BE GIVEN STANDING TO PETITION FOR IMPORT RELIEF UNDER THE PROVISIONS OF THE TRADE ACT OF 1974 AND THE PARALLEL PROVISIONS CONTAINED IN THE CARIBBEAN BASIN ECONOMIC RECOVERY ACT. PUERTO RICO, BECAUSE IT IS WITHIN THE CUSTOMS TERRITORY OF THE UNITED STATES, ALREADY HAS ACCESS TO THESE SAFEGUARD PROCEDURES. ACCORDINGLY, BOTH THE VIRGIN ISLANDS AND PUERTO RICO ARE IN A POSITION TO SEEK IMPOSITION OF IMPORT RELIEF MEASURES WHERE CBI DUTY-FREE TREATMENT MAY BE CAUSING SERIOUS INJURY TO INDUSTRIES LOCATED IN EITHER OF THESE TERRITORIES.

TWO PRODUCTS MANUFACTURED IN THE TERRITORIES HAVE BEEN GIVEN SPECIAL TREATMENT UNDER THE CBI. IN THE CASE OF PROCESSED

TUNAFISH, THE ADMINISTRATION ACCEPTED AN AMENDMENT TO EXCLUDE THIS PRODUCT FROM THE LIST OF ITEMS ELIGIBLE FOR DUTY-FREE TREATMENT UNDER THE CBI. THE IMPORTANCE OF TUNA PROCESSING TO THE ECONOMY OF PUERTO RICO HAD BEEN REPEATEDLY EMPHASIZED BY PUERTO RICAN OFFICIALS.

INCLUSION OF RUM IN THE PROPOSED FREE TRADE AREA IS COUPLED TO A PROVISO THAT EXCISE TAXES ON IMPORTED RUM WILL BE REBATED TO THE TERRITORIES TO PROTECT REVENUES OF THE TERRITORIAL GOVERNMENTS. FURTHER, THE LEGISLATION PROVIDES AN EXEMPTION FOR THE VIRGIN ISLANDS FOR TREATMENT OF EFFLUENTS FROM RUM PRODUCTION. TO HELP AUGMENT VIRGIN ISLANDS RUM SALES, WE HAVE INCREASED THE DUTY-FREE LIQUOR ALLOWANCE FOR RETURNING U.S. RESIDENTS FROM FOUR LITERS TO FIVE LITERS, PROVIDING THAT THE EXTRA LITER MUST BE A PRODUCT OF THE TERRITORIES.

BECAUSE THE VIRGIN ISLANDS ARE NOT WITHIN THE CUSTOM TERRITORY OF THE UNITED STATES, WE HAVE ENSURED IN THE CBI LEGISLATION THAT DUTY-FREE TREATMENT PROVIDED THE VIRGIN ISLANDS UNDER HEADNOTE (3A) OF THE TARIFF SCHEDULES OF THE UNITED STATES WOULD BE COMPARABLE TO THAT WHICH WOULD BE AVAILABLE TO CARIBBEAN BASIN NATIONS. IN THIS RESPECT, WE PROPOSE TO LIBERALIZE THE RULES OF HEADNOTE 3A SUCH THAT GOODS FROM THE VIRGIN ISLANDS WOULD BE ELIGIBLE FOR DUTY-FREE TREATMENT IF NO MORE THAN 70 PERCENT OF THEIR VALUE IS OF FOREIGN

ORIGIN. THIS MEASURE WAS ORIGINALLY PROPOSED BY DELEGATE DE LUGO IN LEGISLATION WHICH PREDATES THE CBI.

OUR SECOND OBJECTIVE WAS TO LEND FURTHER ASSISTANCE TO CURRENT OR ONGOING PUERTO RICAN AND VIRGIN ISLANDS PROJECTS TO SPUR DEVELOPMENT OF THEIR OWN ECONOMIES. SEVERAL MEASURES WERE TAKEN WITH RESPECT TO THIS OBJECTIVE WHICH DO NOT APPEAR IN THE LEGISLATION. AMONGST THEM HAS BEEN OUR SUPPORT FOR THE RECONSTRUCTION OF THE AIRPORT AT ST. THOMAS IN THE VIRGIN ISLANDS. WE HAVE ALSO RESPONDED TO PUERTO RICAN REQUESTS TO LEND ASSISTANCE IN THE DEVELOPMENT OF A TROPICAL AGRICULTURAL RESEARCH CENTER. THIS CENTER SHOULD BE INSTRUMENTAL IN COORDINATING EFFORTS TO IMPROVE AGRICULTURAL PRODUCTIVITY THROUGHOUT THE REGION.

TO ENCOURAGE THE USE OF PUERTO RICAN AND VIRGIN ISLAND PRODUCTS IN THE EXPORTS OF THE CBI COUNTRIES, WE HAVE PROVIDED THAT INPUTS OF THE TERRITORIES WOULD BE CONSIDERED AS CBI INPUTS FOR THE PURPOSE OF THE RULES-OF-ORIGIN.

THE VIRGIN ISLANDS WATCH INDUSTRY HAS BEEN SINGLED OUT FOR SPECIAL TREATMENT. LEGISLATION INTRODUCED BY CONGRESSMAN DE LUGO AND STRONGLY SUPPORTED BY THE ADMINISTRATION ELIMINATES THE FOREIGN CONTENT LIMITATION ON WATCHES ASSEMBLED IN THE TERRITORIES AND PROVIDES AN EMPLOYMENT INCENTIVE TO WATCH PRODUCERS THAT WILL ASSURE INCREASED EMPLOYMENT IN THE

INDUSTRY. THE LEGISLATION WAS SIGNED BY PRESIDENT REAGAN ON JANUARY 12, 1983, AS P.L. 97-445.

OUR FINAL OBJECTIVE IS TO FULLY INVOLVE THE VIRGIN ISLANDS AND PUERTO RICO IN THE IMPLEMENTATION OF THE INITIATIVE. WE ARE COMMITTED TO THE USE OF PUERTO RICAN AND VIRGIN ISLANDS FACILITIES, PERSONNEL AND FIRMS IN OUR TECHNICAL ASSISTANCE PROGRAMS AND DEVELOPMENT PROJECTS ASSOCIATED WITH THE CARIBBEAN BASIN INITIATIVE. FOR EXAMPLE, WE WILL BE FUNDING AN EASTERN CARIBBEAN CENTER FOR EDUCATION, CULTURAL, TECHNICAL AND SCIENTIFIC INTERCHANGE AT THE COLLEGE OF THE VIRGIN ISLANDS.

MR. CHAIRMAN, THROUGH THESE AND OTHER MEASURES WHICH WE CAN DISCUSS WITH THIS COMMITTEE, THE ESSENTIAL INTERESTS OF PUERTO RICO AND THE VIRGIN ISLANDS HAVE AND WILL CONTINUE TO BE FULLY TAKEN INTO ACCOUNT IN THE IMPLEMENTATION OF THE CARIBBEAN BASIN INITIATIVE.

Senator WEICKER. Thank you very much, and I appreciate the testimony and understand that members of our staffs have discussed many of the areas of concern raised by the Initiative and S. 544.

There will be a list of specific questions of a technical nature which I will submit for response to the record. Some of them deal with the interpretation of phrases, and I would appreciate it if the committee could have your response to those questions prior to the Senate consideration of the provisions in 544.

Mr. GINGRICH. Yes, sir. We will have them to you no later than noon on Monday.[1]

Senator WEICKER. I would appreciate it very much. Now is there a distinction between the bulk rum industry and the bottled rum industry for the purposes of section 103(e) of the current CBI legislation?

Mr. GINGRICH. No, sir, there is not. The 103(e) provision is with respect to import relief available under 201. That provision, the 201 provision, permits the United States to put import relief on directly competitive products. There is no provision in the Trade Act of 1974, section 601, which provides that directly competitive products includes all products in the earlier or later stage of processing so in and of itself there is no distinction between bulk and bottled rum in terms of the Caribbean Basin Initiative.

Senator WEICKER. Is there a distinction between aged bulk rum and unaged bulk rum?

Mr. GINGRICH. There may be if they become different commercial products. This is a question, Senator, that the International Trade Commission deals with in every 201 case. The issue that arises is how do you identify the directly competitive product that is coming in with that produced by the industry? There are statutory guidelines provided in the Trade Act of 1974 that the International Trade Commission uses to interpret whether or not that product that is coming in is directly competitive with a particular product in the United States.

If they found that the commercial circumstances were such that aged rum competed only with aged rum, then it is very possible that would be a distinct industry in the United States.

Senator WEICKER. Is there a distinction between the Virgin Islands rum and the Puerto Rican rum industry?

Mr. GINGRICH. It is my understanding that the Puerto Rican rum industry produces much higher value rum than does the Virgin Islands and because those products might be different, in 201 trade terms, technical trade terms, it might become a different industry.

Senator WEICKER. Well, without these distinctions, how will the President be able to determine whether or not serious injuries have been caused to the Virgin Islands rum industry and then decide a trigger for the proposed protections outlined in the CBI legislation?

Mr. GINGRICH. The procedure that would be followed is the Virgin Islands would, of course, as any producer can, be entitled to petition the U.S. International Trade Commission for relief under 201 or any other trade practice law like the antidumping laws.

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[1] See app. I.

If the ITC accepted the petition after determining that the Virgin Islands industry was representative of the industry, it would then proceed to determine whether or not a directly competitive product was causing injury and if that determination was made, the Virgin Islands could, of course, trigger import relief.

Senator WEICKER. You note in your testimony that as you have indicated the Virgin Islands have been given standing to petition for import relief as a benefit in this legislation.

Mr. GINGRICH. Yes, sir.

Senator WEICKER. I understand that yesterday in the Ways and Means hearing you argued that even though they may have this right, they would be unlikely to demonstrate injury to the industry due to their 10-percent share of the market.

If that is true, then this relief is not very useful. Would you consider a small clarification to define the present Virgin Islands bulk industry as a separate and distinct industry entitled to relief and make the reimposition of duties mandatory in the event of injury or serious threat thereto?

Mr. GINGRICH. I think we would have to see the language that we are talking about. Obviously we don't intend, by virtue of the CBI legislation, to cause any unnecessary harm to the Virgin Islands rum industry.

On the other hand, it would be our position in general that with the exception of the exceptions from the CBI that we have already agreed upon, that the existing trade laws are sufficient to protect the industry within the insular possessions from harm resulting from increased imports.

I think to single out the rum industry would lead us to ask for similar protection for other industries. If the Virgin Islands rum industry is to be protected under the general terms of the import relief laws, it would seem to me that they, like everyone else, must be able to show the same amount of causation and harm, and frankly, I think we have to see the language, but I think it would be doubtful whether or not we would support that at least at this stage.

I think there are other ways to protect the Virgin Islands rum industry from any undue consequences. One thing, of course, is we could specify a monitoring system in the ITC, the annual ITC report. We could require quarterly reports of the Customs Service on the amount of rum entering the United States and quarterly reports from the ITC on the impact on the Virgin Islands rum industry. We could make ourselves aware very definitely of any trends that would harm the Virgin Islands, and it would seem to me that would be sufficient to protect their interests.

Senator WEICKER. There have been reports of significant increases in warehousing of unaged bulk rum by beneficiary countries over the last 2 years in excess of their normal drawdown.

Since the import duty does not apply to rum that is withdrawn from warehousing for sale, does such stockpiling give rise to concern over possible dumping on the domestic market once the duty is lifted?

Mr. GINGRICH. Mr. Chairman, it is our understanding that some Jamaican rum producers are stocking rum in warehousing, in bonded warehouses in the United States. This information is diffi-

cult to verify, of course, but it is our understanding that this practice began in 1981 prior to the introduction of CBI, and it is being done for a number of reasons.

First, there is better quality control here in the United States than there is perhaps in Jamaica, and second, that the costs of storing because of temperature, the cost of storing the rum in the United States is less than the cost of storing it in Jamaica. The evaporation is simply less here than it is there. These are among the factors that contribute to the increased stocking as we understand it.

Second, the term "dumping" is a technical term and it would not matter whether it was stocked in a bonded warehouse here or in Jamaica with respect to the dumping laws. They would still apply.

Senator WEICKER. Well, then I suppose what concerns me is as to whether or not this situation does constitute a threat within the meaning of the section for the purposes of the Virgin Islands bulk rum industry.

Mr. GINGRICH. The Jamaican rum is, as I mentioned previously, a much higher cost, higher quality rum than that that is produced by the Virgin Islands' rum industry, so we don't believe the two products are competitive, but in terms of whether or not there is a threat of dumping, the actual technical meaning of the term, dumping is no greater because they are in Customs bonded warehouses here and days away by ship in Jamaica. There just doesn't seem to be that much difference.

Senator WEICKER. Is the EPA's exemption dependent upon economic conditions in the Caribbean Basin, or is it justified on its own merits?

Mr. GINGRICH. Can I get someone from EPA to answer that? I'm sorry, sir. I am just not qualified to answer that.

Senator WEICKER. Please have somebody respond to that for the record.

Mr. GINGRICH. Yes, sir.

Senator WEICKER. Assuming the timing of the EPA relief—again, if you could respond to this question I would appreciate it, for the record—assuming the timing of the EPA relief is important, presumably a discharge requirement is necessary at the same time for the authority to lift the duty on the rum. Is the completion of the airport of the Virgin Islands important to the extension of the conventional tax base?

Mr. GINGRICH. First, it seems to me the question of the appropriateness of money for the Virgin Islands airport is a matter of congressional responsibility. Frankly, we don't see a tie between the completion of the airport and the conventional tax status.

Senator WEICKER. What counsel points out is correct. It is a matter for congressoinal appropriations. On the other hand, it is also a matter of an administration request, isn't it?

Mr. GINGRICH. That is my understanding.

Senator WEICKER. So it does relate to the administration?

Mr. GINGRICH. Yes. I think our belief is that the development of the convention business around the Caribbean would not be so swift as to harm the Virgin Islands pending the completion of the airport. There are obviously convention facilities that are available. There will be no dramatic increase in that.

Senator WEICKER. Section 201 would create a new fund to transfer the excise tax derived on foreign rum imported in the United States to the treasury of Puerto Rico and the Virgin Islands.

If as the administration believes enactment of this legislation will have no effect on the Virgin Islands and Puerto Rican rum industries, why is the rum provision necessary?

Mr. GINGRICH. First of all, it was desired by Puerto Rico and the Virgin Islands. It is simply a guarantee to them of an amount of money. It is my understanding that they desire it for budgetary purposes, for just planning purposes in future years.

Senator WEICKER. The current rum fund for the Virgin Islands includes a provision for Federal oversight by the Secretary of the Interior. That oversight is not included in this provision. Why?

Mr. GINGRICH. We have no objection to it being included in the provision, Senator.

Senator WEICKER. The administration is opposed to appropriations to resolve the water and power situation in the Virgin Islands.

Assuming adequate water and power supply is essential for the economic development, why is an uncertain allocation of revenues under section 201 preferable to directly resolving the infrastructure needs of the Virgin Islands and Puerto Rico?

Mr. GINGRICH. Can I answer that for the record with the help of EPA?

Senator WEICKER. What was that?

Mr. GINGRICH. Can I answer that for the record with the help of the Interior Department?

Senator WEICKER. One last question. The administration is willing to guarantee the indirect transfer of funds to Puerto Rico and the Virgin Islands to cover potential impact on the rum industry.

Is it prepared to reconsider its position on the transfer of taxes on petroleum products manufactured in Puerto Rico and the Virgin Islands?

Mr. GINGRICH. Again, I may want to supplement this with an answer with the help of the Interior Department. Petroleum products were specifically excluded from the CBI. The same situation doesn't exist as exists with respect to rum.

Senator WEICKER. I just don't see the difference between the two. If indeed we have a rebate of rum meant to be of assistance to the Virgin Islands, raised by the CBI, it would seem to me a good time to review our policy in the petroleum manufacturing area also.

Mr. GINGRICH. May I answer that question for the record, as I say, with the help of the Interior Department? This gets into insular possession policies and I am simply not qualified to answer those questions.

Senator WEICKER. All right. I have no further questions.

Senator Hecht.

Senator HECHT. No. Thank you, Mr. Chairman. I just came to get informed on the subject this morning. Thank you very much.

Senator WEICKER. Thank you. Thank you very much. The next witness is the Honorable Ron de Lugo and the Honorable Julio Brady, Lieutenant Governor of the Virgin Islands, accompanied by Mr. William Blum, counsel to the Governor, and I think we are missing the name of one lady also.

Mr. DE LUGO. My administrative assistant, Sheila Ross.

Senator WEICKER. Congressman, you go ahead and proceed.

STATEMENT OF HON. RON DE LUGO, A DELEGATE FROM THE VIRGIN ISLANDS; ACCOMPANIED BY SHEILA ROSS, ADMINISTRATIVE ASSISTANT TO MR. DE LUGO

Mr. DE LUGO. Thank you very much, Mr. Chairman, and I want to thank you and the members of this committee for giving us the opportunity to state our case.

I have submitted for the record a rather lengthy statement which outlines the entire situation, but I know that the Chair is familiar with the problems we face in the U.S. Virgin Islands.

I was a little amazed this morning as I arrived to hear the administration testify before this committee that the Virgin Islands has protection, has recourse under the Trade Act of 1974 since on the House side before the Ways and Means Committee as a matter of record yesterday they admitted that we don't have any real recourse, and when on the House side they were asked well, would you be willing to work with a number of the members on the committee to work out some protection for this U.S. territory and its U.S. citizens, the answer of the administration was no.

Mr. Chairman, as you know, this U.S. territory, the Virgin Islands, has come a long way, come a long way since 1954 when the Congress originally in the Organic Act set up the set-aside, the excise tax collection to help us build up our infrastructure, and the Virgin Islands today, the rest of the Caribbean sees the Virgin Islands as the United States in the Caribbean.

It was testified here just a moment ago that it is difficult for the administration to get the figures of the stockpiling that Jamaica is doing. Well, we have here, first of all I would like to submit the Custom Service figures that show from January to March of this year, the increase in imports of distilled spirits, rum, from Jamaica, that increase, and this is from the Customs Service, was by 233 percent. I don't know why we can get these figures and the administration can't.

We have further figures here that we will present to the committee about the stockpiling.

It came out yesterday in testimony that Jamaica has more rum in warehouses here in the United States under bond at the present time than the total amount of rum that the Virgin Islands shipped into the U.S. market in 1982. From 1979 to 1982, 6.6 million proof gallons of Jamaican rum arrived in the United States. The tariff has been made on only 2.4 million proof gallons; 4.2 million proof gallons of Jamaican rum upon which no tariff has been paid are sitting in the warehouse waiting to flood the U.S. market the moment that the tariff is removed.

Put another way, in 1978 the tariff was paid on nearly all Jamaican rum that arrived in the United States. Very little was put in warehouses. By 1982, more than two-thirds of the Jamaican rum arriving in the United States was being put in bonded warehouses.

Mr. Chairman, our concern is for bulk rum and we are not even concerned with the entire bulk rum industry. It has been said that, by the administration, that the rum market in the United States is

a growing market. I think yesterday it was said by one witness that it is expanding by some 11 percent.

The fact of the matter is that the 11-percent growth statistic is completely out of date since it includes the rum market boom years of the late 1970's. Between 1980 and 1982, rum shipments from Puerto Rico and the Virgin Islands were down more than 10 percent. Foreign producers may believe the easiest way to expand their market share is to produce unaged bulk rum to compete with the Virgin Island producers. That is where our concern lies.

In the foreign islands there is a tremendous amount of unused distillery capacity. Their costs of producing rum are much lower than ours. We in the Virgin Islands, we have approximately 11 percent of the mainland market. The rest of it Puerto Rico has, and 3 percent is foreign, but the foreign islands have access duty free to the markets of Canada and Europe. We do not have that access, and that access gives them a market that is at least equal to what we have here in the United States.

We want to help the foreign islands develop, but not at the expense of the U.S. territories. We produce an unaged, unlabeled rum at the present time. It is the bottom of the line. The foreign islands do not produce this. They do not ship it into the United States market at the present time. The administration has testified that we have nothing to worry about because the foreign islands are not going to ship this into the United States. The foreign lobby has testified that they don't intend to ship it into the United States. This is our big concern.

All we are asking is—we are all in agreement then, so why would the administration object to putting this statutory protection in there for the Virgin Islands putting a limit—in other words, let's say lift the tariff on any bulk rum over $3.50 a gallon. Let that come in duty free and let the bottled rum come in duty free. That is the market that they say they want. We have no objection to that, but give the Virgin Islands this protection.

Puerto Rico has testified that they are strong enough that they are really just supporting us, but that they are not seriously threatened by the CBI as far as the rum situation goes. There is only one territory that is threatened, one group of American citizens, and they are the Virgin Islands, so I ask for your help.

Thank you again.

Senator WEICKER. Thank you very much, Congressman.

[The prepared statement of Mr. de Lugo follows:]

STATEMENT BY THE HONORABLE RON DE LUGO

BEFORE THE

SENATE ENERGY AND NATURAL RESOURCES COMMITTEE

1

MR. CHAIRMAN:

SINCE THE SPRING OF 1981, WHEN PLANS FOR THE DEVELOPMENT OF A NEW CARIBBEAN BASIN INITIATIVE WERE FIRST ANNOUNCED, THE U.S. VIRGIN ISLANDS HAS CONSISTENTLY COMMENDED THE PRESIDENT FOR ADDRESSING THE LONG-NEGLECTED PROBLEMS OF THIS AREA OF THE WORLD. HOWEVER, THE U.S. VIRGIN ISLANDS HAS ALSO CONSISTENTLY EXPRESSED ITS CONCERN AS TO THE IMPACT OF THE CBI ON THE INSULAR POSSESSIONS. SPECIFICALLY, THOSE CONCERNS FALL INTO TWO CATEGORIES.

FIRST, WE ARE CONCERNED THAT ANY TRADE AND TAX BENEFITS EXTENDED TO FOREIGN COUNTRIES UNDER CBI NOT ERODE THE DELICATE ECONOMIC BASE THAT THE CONGRESS OF THE UNITED STATES HAS CAREFULLY CONSTRUCTED OVER THREE DECADES TO STABLIZE THE INSULAR POSSESSIONS ECONOMICALLY AND POLITICALLY.

SECOND, WE EXPRESSED OUR CONCERN THAT THE INSULAR POSSESSIONS IN THE CARIBBEAN NOT BE EXCLUDED FROM PLAYING AN ACTIVE ROLE IN THE IMPLEMENTATION OF THE CARIBBEAN BASIN INITIATIVE.

THESE ISLANDS IN THE EASTERN CARIBBEAN ARE CLOSELY TIED TO THE U.S. VIRGIN ISLANDS. WE SHARE A COMMON HISTORY AND CULTURE. FULLY HALF OF THE ENTIRE POPULATION OF THE U.S. VIRGIN ISLANDS IS FROM THIS AREA. HALF OF OUR STUDENTS ARE CHILDREN OF NON-U.S. CITIZENS. OUR SCHOOL POPULATION NOW IS EQUIVALENT TO OUR ENTIRE POPULATION OF TWO DECADES AGO.

A VERY LARGE PERCENTAGE OF OUR WORKFORCE IS FROM DOWN-ISLAND, AND MONIES SENT "BACK HOME" FROM EMPLOYMENT IN OUR ISLANDS REPRESENT MAJOR REVENUES TO OUR NEIGHBORS AND PROVIDE, EVEN NOW, A STABILITY THAT WOULD NOT OTHERWISE EXIST.

OUR MEDIA REACHES ALL THE WAY DOWN IN THE ISLAND CHAIN, AND WITH FAMILIES AND BUSINESSES SO INTERWOVEN, TELEPHONE COMMUNICATION IS CONSTANT. THE COLLEGE OF THE VIRGIN ISLANDS, WHICH WE ESTABLISHED FIFTEEN YEARS AGO, IS A CENTER FOR HIGHER EDUCATION AND THE EXCHANGE OF IDEAS IN THE REGION, AND NEARLY FORTY PERCENT OF ITS STUDENTS ARE FROM OUR NEIGHBORING ISLANDS.

ALL OF THIS PLACES A SIGNIFICANT FINANCIAL BURDEN ON THE TERRITORY, WHICH WE HAVE WILLINGLY AND PROUDLY SHOULDERED. FOR OUR NEIGHBORING ISLANDS, THE U.S. VIRGIN ISLANDS IS THE UNITED STATES, AND U.S. POLICIES ARE PERCEIVED THROUGH US. IT IS IN THE VERY BEST INTERESTS OF THE UNITED STATES THAT THE U.S. VIRGIN ISLANDS REMAIN THE HEALTHY, DEVELOPING ISLANDS THEY ARE TODAY.

IN RESPONDING TO OUR CONCERNS ON JANUARY 25, 1982, THE PRESIDENT STATED THAT "..THE INITIATIVE SHOULD BE STRUCTURED SO AS TO REINFORCE AND CONTINUE THE IMPRESSIVE ECONOMIC GAINS ACHIEVED BY THE VIRGIN ISLANDS AND PUERTO RICO." AND ON MARCH 17, 1982, IN HIS TRANSMITTAL STATEMENT TO THE CONGRESS ON CBI, THE PRESIDENT STATED: "PUERTO RICO AND THE VIRGIN ISLANDS HAVE A LONGSTANDING SPECIAL RELATIONSHIP WITH THE UNITED STATES. THEIR DEVELOPMENT MUST BE ENHANCED BY OUR POLICY TO THE REST OF THE REGION."

MR. CHAIRMAN, RATHER THAN "ENHANCE", THE LEGISLATION ON CBI AS INTRODUCED LAST YEAR WOULD HAVE SERIOUSLY IMPAIRED OUR ECONOMIES. WE WERE ABLE TO HAVE ADOPTED IN THE TRADE SUBCOMMITTEE LAST YEAR CERTAIN AMENDMENTS WHICH WOULD HAVE GIVEN US SOME OF THE SAFEGUARDS WE NEEDED. WE ARE PLEASED THAT TWO OF THOSE HAVE BEEN INCLUDED IN S. 544 AND WOULD URGE THE COMMITTEE THAT THESE BE MAINTAINED.

ONE OF THESE PROVISIONS INCREASES THE CEILING UNDER HEADNOTE 3A ON VIRGIN ISLANDS PRODUCTS FROM THE CURRENT 50% TO 70%. THIS IS AN EQUITABLE COUNTERBALANCE TO THE ENTRY BENEFITS EXTENDED TO ELIGIBLE COUNTRIES UNDER CBI WHICH WILL ENABLE US TO REMAIN COMPETITIVE FOR NEW INDUSTRY. WE WERE PLEASED THAT THE ADMINISTRATION SUPPORTED THIS PROVISION LAST YEAR, AND THAT IT HAS INCLUDED IT IN ITS PROPOSED LEGISLATION THIS YEAR. WE URGE THE COMMITTEE TO RETAIN THIS IMPORTANT PROVISION IN S. 544.

S. 544 ALSO CONTAINS A PROVISION THAT WOULD ALLOW THE GOVERNOR OF THE VIRGIN ISLANDS TO MAKE REGULATORY DETERMINATIONS ON THE EFFLUENT INVOLVED IN RUM PRODUCTION. THE ADMINISTRATION SUPPORTED THIS PROVISION WHEN IT WAS OFFERED AS AN AMENDMENT LAST YEAR, AND THEY CONTINUE TO SUPPORT THIS PROVISION HAVING INCLUDED IT IN THEIR PROPOSAL THIS YEAR. I RECOGNIZE THAT JURISDICTIONAL CONCERNS WERE RAISED WITH THIS PROVISION LAST YEAR. HOWEVER, I WOULD LIKE TO POINT OUT THAT JURISDICTION WAS WAIVED IN THE HOUSE BY THE CHAIRMEN, AND RANKING MEMBERS OF BOTH PARTIES ON THE PUBLIC WORKS COMMITTEE AND THE WATER RESOURCES SUBCOMMITTEE BOTH OF WHICH I SERVE ON. I ALSO TESTIFIED BEFORE SENATOR CHAFEE'S SUBCOMMITTEE ON WATER POLLUTION ON THIS ISSUE IN APRIL. MY TESTIMONY, WHICH COVERS THE MERITS OF OUR CASE AND ALSO ADDRESSES THE JURISDICTIONAL MATTER, IS ATTACHED. WE URGE THE COMMITTEE THAT BOTH THESE CRUCIAL PROVISIONS BE MAINTAINED.

WHILE WE WERE PLEASED THAT THOSE PROVISIONS HAVE BEEN INCLUDED, MR. CHAIRMAN, WE ARE GREATLY CONCERNED WITH TWO OTHER MATTERS WHICH, IF UNRESOLVED, WILL MAKE CBI EXTREMELY DETRIMENTAL TO THE FUTURE ECONOMIC, SOCIAL AND POLITICAL STABILITY OF THE U.S. VIRGIN ISLANDS.

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THE ECONOMY OF THE U.S. VIRGIN ISLANDS IS BASED ON TWO MAIN SUPPORTS: THE REBATED EXCISE TAXES COLLECTED ON OUR RUM EXPORTS TO THE MAINLAND; AND TOURISM. S. 544 THREATENS BOTH THOSE SUPPORTS.

LET ME EXPLAIN FIRST WHY RUM IS SO IMPORTANT TO US.

IN 1954, THE CONGRESS, WHICH HAS FULL PLENARY AUTHORITY OVER THE TERRITORIES, SOUGHT TO PROVIDE A MECHANISM THAT WOULD BRING DEVELOPMENT AND STABILITY TO PUERTO RICO AND THE U.S. VIRGIN ISLANDS. PROVISIONS WERE ADOPTED THAT REBATED TO THOSE TWO POSSESSIONS THE EXCISE TAXES COLLECTED ON THEIR RESPECTIVE RUM IMPORTS INTO THE UNITED STATES. IN 1954, THIS MEANT ABOUT ONE MILLION DOLLARS TO THE VIRGIN ISLANDS, AND OVER THE YEARS THIS FUND HAS GROWN TO A HIGH OF NEARLY $40 MILLION.

WE CALL THESE MONIES OUR MATCHING FUND. IT IS, IN ESSENCE OUR ONLY CAPITAL IMPROVEMENTS BUDGET AND IT HAS BEEN USED TO MATCH FEDERAL FUNDS FOR SCHOOLS, ROADS, INFRASTRUCTURE, ALL THE APPERTENANCES WE NEEDED TO MOVE FROM THE VERY POOR, UNDERDEVELOPED, ECONOMICALLY SHAKY TERRITORY WE WERE IN 1954, INTO THE THRIVING AND STABLE SOCIETY WE ARE TODAY. THE UNITED STATES SHOULD BE RIGHTLY PROUD, AS WE ARE, OF THIS ACCOMPLISHMENT.

CLEARLY IT WAS THE RUM EXCISE TAX FUND THAT DID IT. THAT FUND REPRESENTS NOW NEARLY 20% OF OUR TOTAL OPERATING BUDGET, AND ANYTHING THAT THREATENS THAT FUND THREATENS OUR VERY EXISTENCE, LET ALONE OUR FUTURE.

MR. CHAIRMAN, NOW THAT I HAVE EXPLAINED WHY OUR RUM INDUSTRY IS SO IMPORTANT, LET ME NOW EXPLAIN WHY IT IS SO VULNERABLE.

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RUM SHIPPED FROM THE U.S. VIRGIN ISLANDS HAS ONLY 11% OF THE TOTAL U.S. MARKET. THE U.S. IS OUR ONLY MARKET SINCE WE ARE EFFECTIVELY EXCLUDED FROM CANADA AND EUROPE BY TARIFFS AND OTHER IMPORT RESTRICTIONS WHICH ARE NOT LEVIED ON MOST OF OUR FOREIGN COMPETITORS IN THE CARIBBEAN.[1]

NEARLY 98% OF OUR TOTAL RUM EXPORTS TO THE U.S. ARE IN BULK, THAT IS SHIPPED IN CONTAINERS OF A GALLON OR MORE. OUR PRODUCT IS UNAGED, UNLABELLED BULK: THE BOTTOM OF THE RUM LINE. IT IS BASICALLY A COMMODITY, USED FOR REPACKAGING AS HOUSE BRANDS, PREMIXED DRINKS AND FOOD ADDITIVES. THE MARKET FOR THIS PRODUCT IS EXTREMELY PRICE SENSITIVE. REMOVING THE TARIFF ON THIS TYPE OF RUM WOULD ENCOURAGE FOREIGN DISTILLERS TO SHIFT PRODUCTION TO THIS AREA AND RENDER US UNABLE TO COMPETE.

FOREIGN RUM PRODUCERS IN THE CARIBBEAN COMMAND THE CANADIAN AND EUROPEAN MARKETS AND HAVE 3% OF THE U.S. MARKET. A LARGE PERCENTAGE OF THEIR PRODUCT ENTERS THE U.S. IN BOTTLES, AND PRACTICALLY ALL OF THEIR BULK RUM SHIPMENTS ARE OF A HIGHER CALIBRE, AGED PRODUCT. PRODUCTION COSTS ARE FAR LOWER IN THESE ISLANDS, MOST WHICH GROWN THEIR OWN SUGAR FOR MOLASSES, THE PRIMARY INGREDIENT IN RUM PRODUCTION WHICH WE MUST IMPORT. WAGES ARE SUBSTANTIALLY LOWER. IN JAMAICA THE MINIMUM WAGE IS $0.45/HOUR (US$). HOURLY RATES IN THE DOMINICAN REPUBLIC IN THE RUM INDUSTRY AVERAGE $0.65/HOUR (US$) TO A MAXIMUM OF $1.69/HOUR (US$) FOR SUPERVISORS. IN BARBADOS, WHICH PAYS THE HIGHEST WAGES, DISTILLERY WORKERS AVERAGE $2.20/HOUR (US$).

[1]Canada assesses a tariff of $0.89/gallon on U.S.V.I. rum, and although Canada does not have a quota on USVI rum per se, provincial agencies are authorized to establish limits beyond which rum may not enter, even if the tariff is paid. Antiqua, Barbados, Guyana, Jamaica and Trinidad all enter Canada duty-free, and consequently command the market. European countries assess tariffs averagin $1.73/gallon on USVI rum, while any rum imported from a former colony of any common market may enter duty-free, and consequently command that market also.

It must also be noted that foreign Caribbean rum producing islands levy extremely high tariffs on USVI rum, and in some cases, flat out prohibitions. In Jamaica, tariffs on U.S.V.I. rum are $59 (US$) per gallon on 80 proof or less, and $71 per gallon on more than 80 proof with the added restriction that no USVI rum may be imported if there is sufficient local production. The Dominican Republic has a tariff of $4.92(US$) per gallon with a surcharge of 50% to 200%.

IN THE USVI, WAGES FOR DISTILLERY WORKERS, WHO ARE UNIONIZED, START AT $4.91, AND A 10% CONTRACTURAL INCREASE IS DUE THIS MONTH. IN ADDITION TO SUBSTANTIALLY LOWER WAGES, OUR FOREIGN COMPETITORS ARE NOT SUBJECT TO THE SAME COSTLY FEDERAL REGULATIONS AS THE VIRGIN ISLANDS PLANTS.

THERE IS, MR. CHAIRMAN, NOTHING SACRED ABOUT RUM. IT IS A COMMODITY LIKE ANY OTHER COMMODITY. NOR IS IT ANY MORE SACRED TO ONE COUNTRY OR ANOTHER THAN IT IS TO US. THE VIRGIN ISLANDS HAS BEEN PRODUCING AND SHIPPING RUM TO THE U.S. SINCE THE AMERICAN REVOLUTION, AND EVEN BEFORE THAT WHEN THE UNITED STATES ITSELF WAS A TERRITORY OF ANOTHER COUNTRY. OUR MAJOR PRODUCER IS AN AMERICAN COMPANY, WHILE A LARGE PERCENTAGE OF FOREIGN RUM PRODUCTION IN THE CARIBBEAN IS OWNED BY MULTI-NATIONAL CORPORATIONS.

WE BELIEVE THAT MANY CARIBBEAN ISLANDS SUBSIDIZE THEIR RUM INDUSTRIES IN ONE FORM OR ANOTHER. A NUMBER OF THOSE COUNTRIES ARE IN AN EXCELLENT POSITION TO SUBSIDIZE RUM THROUGH MOLASSES SALES AT BELOW WORLD MARKET PRICES BECAUSE OF THE CONTROL THEIR GOVERNMENTS HAVE OVER THE SUGAR INDUSTRY OF WHICH MOLASSES IS A BY-PRODUCT, AND IN SOME CASES, GOVERNMENT OWNERSHIP OF THE DISTILLERIES. IN JAMAICA, THE GOVERNMENT OWNS THE JAMAICA NATIONAL SUGAR COMPANY, WHICH IS MAJORITY OWNER OF TWO DISTILLERIES AND SOLE OWNER OF A THIRD. IN TRINIDAD, THE GOVERNMENT OWNS SUGAR PLANTATIONS AND A DISTILLERY, AND IN THE DOMINICAN REPUBLIC, THE GOVERNMENT HAS OFFICIALLY SET THE MAXIMUM PRICE OF MOLASSES AT SIGNIFICANTLY LESS THAN WORLD MARKET PRICES. WE HAVE INFORMATION FROM PERSONS IN RUM INDUSTRIES IN OTHER ISLANDS OF OTHER SUBSIDIES. NATURALLY, WITH ALL THE GOVERNMENT CONTROLS IN THOSE ISLANDS, IT IS DIFFICULT TO PROVE, BUT CERTAINLY THE MEANS AND THE MOTIVATION ARE THERE. ON THE OTHER HAND, THE U.S. VIRGIN ISLANDS MOLASSES SUBSIDIES ARE A MATTER OF PUBLIC RECORD AS I HAVE CONSISTENTLY POINTED OUT IN MY TESTIMONY BEFORE THIS AND OTHER COMMITTEES ON THIS ISSUE.

CLEARLY, THE ADMINISTRATION IS COGNIZANT OF THE DAMAGE THAT LIFTING THE DUTY ON FOREIGN RUM WILL DO TO OUR INDUSTRY. WHY ELSE WOULD THE ADMINISTRATION HAVE INCLUDED IN ITS CBI PACKAGE A PROVISION TO REBATE TO PUERTO RICO AND THE U.S. VIRGIN ISLANDS THE EXCISE TAXES COLLECTED ON FOREIGN RUMS? THIS IS OBVIOUSLY AN INJURY PAYMENT.

MR. CHAIRMAN, THERE IS SIMPLY NO WAY THAT THE U.S. VIRGIN ISLANDS CAN WITHSTAND THE LOSS OR EVEN A REDUCTION IN OUR CURRENT LEVEL OF RUM EXCISE TAX REBATES. IT IS OUR SECOND LARGEST REVENUE SOURCE, AFTER INCOME TAXES. WHILE OUR RUM INDUSTRY HAS APPROXIMATELY 100 DIRECT EMPLOYEES, LOSS OF THE EXCISE TAX REBATES WOULD TRANSLATE INTO THE LOSS OF THOUSANDS OF JOBS. AN INJURY PAYMENT THAT COULD BE RESCINDED AT ANY TIME IS NO SECURITY AT ALL. OUR ECONOMY IS PARTIALLY GROUNDED ON THE INTEGRAL RELATIONSHIP BETWEEN GOVERNMENT AND OUR RUM INDUSTRY, AND THIS RELATIONSHIP, WHICH HAS PROVEN VERY SUCCESSFUL FOR THE PAST THIRTY YEARS, HAS BEEN THE KEY FACTOR IN THE DEVELOPMENT OF THE U.S. VIRGIN ISLANDS. FAR PREFERABLE TO THE PROPOSED INJURY PAYMENTS, MR. CHAIRMAN, WOULD BE MAINTENANCE OF THE INDUSTRY.

THE U.S. VIRGIN ISLANDS AND PUERTO RICO HAVE BEEN STUDYING THIS RUM ISSUE FOR A LONG TIME, AND WE HAVE A PLAN WHICH WILL NOT ONLY ALLOW US TO REMAIN COMPETITIVE, BUT WILL MAKE THE CBI A FAR MORE EFFECTIVE AND SUCCESSFUL FOREIGN POLICY TOOL THAN IT IS NOW. A DETAILED ANALYSIS OF THE PROPOSAL IS ATTACHED TO THIS STATEMENT. IN BRIEF, THE PROPOSAL WOULD KEEP THE DUTY ON BULK RUM, THE PRICE SENSITIVE END OF THE BUSINESS, AND OUR MAJOR PRODUCT. THE DUTY ON BOTTLED RUM HOWEVER, WOULD BE LIFTED COMPLETELY.

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We do not believe that expansion of bulk rum production would resolve the economic problems of the area. It is bottled rum that is the labor intensive end of the industry. Furthermore, we estimate that even if the entire bulk rum market of the U.S. Virgin Islands is taken over by our foreign competitors, the total amount of income taxes that could be generated on that increased production would be less than one million dollars. And this would only be realized if the full U.S. Corporate rate were applied, which historically has not been the case. This might be of substantial benefit to the multi-nationals which own much of the foreign rum production, but of little discernible benefit to the people of those islands.

It is the same islands of the Eastern Caribbean chain, excluding Jamaica, Haiti and the Dominican Republic, which stand to benefit the least under CBI appropriations. Of the FY 1983 appropriations of $350 million, the major part went to Central America, $10 million to Haiti, $40 million to the Dominican Republic, and $50 million to Jamaica. The remaining twelve eligible islands of the Eastern Caribbean chain shared a total of only $20 million. These are the islands which are very friendly to the United States, and which are equally in need of assistance for schools, health care facilities and infrastructure.

Consequently, if the duty is maintained on foreign bulk rum shipments, we propose establishing with the excise taxes collected on foreign rum shipments a special Caribbean Regional Development Fund for both the rum and non-rum rpoducing islands. The fund would be earmarked for those critically needed items. The details of the distribution and the cap on the fund are contained in the attached analysis, but I would like to emphasize here that the fund would neither substitute for other foreign aid appropriations, nor would it constitute any increase in cost under the CBI proposal as it now

STANDS. RATHER, THE FUND WOULD OFFER TO OUR NEIGHBORS THE SAME RELIABLE REVENUE SOURCE THAT ENABLED PUERTO RICO AND THE U.S. VIRGIN ISLANDS TO DEVELOP INTO ECONOMICALLY AND POLITICALLY STABLE SOCIETIES.

OUR OTHER CONCERN, MR. CHAIRMAN, IS THE IMPACT OF THAT PROVISION OF THE CBI WHICH EXTENDS THE CONVENTION TAX BENEFITS TO ELIGIBLE COUNTRIES ON OUR TOURISM INDUSTRY. TOURISM IS OUR SINGLE LARGEST INDUSTRY AND REPRESENTS APPROXIMATELY 40% OF OUR GROSS TERRITORIAL PRODUCT. TOURISM ACCOUNTS FOR ONE-THIRD OF ALL EMPLOYMENT IN THE VIRGIN ISLANDS AND ONE-HALF OF ALL PRIVATE SECTOR EMPLOYMENT. OUR ENTIRE ECONOMY IS GEARED TO TOURISM, AND WE HAVE ALREADY WITHSTOOD SUBSTANTIAL DECREASES OVER THE PAST THREE YEARS DUE TO THE MAINLAND RECESSION.

THE NEIGHBORING ISLANDS OF THE EASTERN CARIBBEAN REPRESENT OUR DIRECT COMPETITION IN TOURISM. THESE ISLANDS ARE EXTREMELY PRICE-COMPETITIVE DUE TO THEIR LOWER WAGE STRUCTURES AND ABSENCE OF COSTLY FEDERAL REGULATIONS ON INDUSTRY COMPONENTS. MANY ALREADY ENJOY INADEQUACIES OF OUR RUNWAY LENGTHS ON ST. THOMAS AND ST. CROIX, WHICH DO NOT ENABLE US TO BRING IN LARGER, FUEL-EFFICIENT AIRCRAFT, AND WHICH PREVENT US FROM TAPPING THE LUCRATIVE EUROPEAN MARKET. ONLY THREE OF OUR SMALLER NEIGHBORING ISLANDS HAVE A RUNWAY AS SHORT AS THE ONE ON ST. THOMAS, OUR PRIMARY TOURIST DISTINATION.

EXTENSION OF THE CONVENTION TAX BENEFIT TO OUR TOURISM COMPETITION UNDOUBTEDLY WOULD PLACE THE U.S. VIRGIN ISLANDS AT AN ADDED DISADVANTAGE IN THAT CRUCIAL INDUSTRY. AND I WOULD URGE THAT EXTENSION OF THE CONVENTION TAX BENEFIT NOT BE EXTENDED TO OUR COMPETITION UNTIL THE AIRPORT RUNWAY EXTENSION ON ST. THOMAS HAS BEEN COMPLETED. AT THE SAME TIME, THE CBI EXTENDS TRADE BENEFITS TO THESE ISLANDS THAT WILL RESTRICT OUR ABILITY TO ATTRACT NEW INDUSTRY AND DIVERSIFY OUR TOURISM-BASED ECONOMY.

WE ARE PARTICULARLY DISTURBED THAT THESE CONVENTION TAX CREDITS HAVE BEEN INCLUDED IN THE CBI, SINCE IN SEPTEMBER OF 1981, WHEN THAT BENEFIT WAS EXTENDED TO JAMAICA BY TAX TREATY, COMMITMENTS WERE MADE BY THE ADMINISTRATION BEFORE THE SENATE COMMITTEE ON FOREIGN RELATIONS THAT NO FURTHER EXTENSION OF THE CREDIT WOULD BE SOUGHT.

BASICALLY, MR. CHAIRMAN, IT IS EVIDENT THAT PUERTO RICO AND THE U.S. VIRGIN ISLANDS ARE BEING ASKED TO SHARE DISPROPORTIONATELY IN THE FINANCIAL BURDEN OF CBI. WE HAVE TWO MAJOR ECONOMIC SUPPORTS: TOURISM AND RUM EXCISE TAX REBATES, AND BOTH OF THEM WILL BE SERIOUSLY ERODED BY THE CBI. NO OTHER JURISDICTION UNDER THE AMERICAN FLAG STANDS TO BE SO UNIQUELY AND NEGATIVELY IMPACTED.

OUR SECRETARY OF STATE, GEORGE SCHULZ, IN A RECENT ADDRESS BEFORE THE SOUTHERN CENTER FOR INTERNATIONAL STUDIES IN ATLANTA ON FEBRUARY 24, 1983 SAID THAT THE CBI WILL COST EACH CITIZEN IN THE UNITED STATE $3.84. MR. CHAIRMAN, WE CONTEND THAT IT WILL COST THE AMERICAN CITIZENS OF THE U.S. TERRITORIES IN THE CARIBBEAN FAR, FAR MORE, AND WILL IN FACT THREATEN OUR VERY ECONOMIC EXISTENCE.

WE MUST, AT THE VERY LEAST, HAVE THE PROTECTIONS WE SEEK FOR THAT CRUCIAL COMPONENT OF OUR ECONOMY: OUR RUM EXCISE TAXES. THE PROPOSAL WE HAVE DEVELOPED WILL NOT ONLY ACCOMPLISH THAT GOAL, BUT WILL MAKE THE CBI A FAR MORE EFFECTIVE FOREIGN POLICY VEHICLE. UNDER OUR PROPOSAL, THE SMALL ISLANDS OF THE EASTERN CARIBBEAN WILL HAVE MUCH GREATER OPPORTUNITIES TO DEVELOP, AND TO DEVELOP IN SUCH A WAY THAT EVERY MAN, WOMAN AND CHILD IN THOSE ISLANDS WILL BENEFIT.

OUR PROPOSAL ON RUM, MR. CHAIRMAN, IS CONTAINED IN H.R.3108 WHICH I INTRODUCED ON MAY 24 WITH 117 CO-SPONSORS, AND WE ARE CONTINUING TO ADD MORE. I AM VERY GRATEFUL TO MY COLLEAGUES FOR THE BREADTH AND DEPTH OF THEIR SUPPORT ON THIS ISSUE WHICH AFFECTS ONLY THE U.S.

TERRITORIES IN THE CARIBBEAN. BUT, I WOULD LIKE TO EMPHASIZE TO YOU AND YOUR COMMITTEE THAT THE VIRGIN ISLANDS IS NOT LOCKED IN CONCRETE ON H.R. 3108 AS THE ONLY POSSIBLE SOLUTION. THERE ARE OTHER POSSIBILITIES, AND WE STAND READY TO WORK WITH YOU AND YOUR COMMITTEE ON ALTERNATE APPROACHES. WE ARE PREPARED TO COMPROMISE AT ANYTIME, AS LONG AS THE VIRGIN ISLANDS IS PROTECTED. THIS IS ONE OF THE MOST CRUCIAL ISSUES WE HAVE FACED BECAUSE THE RUM INDUSTRY IS VITALLY IMPORTANT TO OUR ECONOMY AND TO OUR VERY SOCIAL AND POLITICAL FABRIC.

BUT, OUR CONCERN GOES EVEN BEYOND THE RUM INDUSTRY PER SE. THE UNITED STATES MUST KEEP ITS TERRITORIES IN THE CARIBBEAN STRONG FOR ITS OWN BEST INTERESTS. EXPECTATIONS ABOUT THE CBI ARE RUNNING EXTREMELY HIGH IN OUR NEIGHBORING ISLANDS. THE UNITED STATES WILL NEED ITS CARIBBEAN TERRITORIES TO MAKE THE CBI WORK. FOR OUR UNIQUE EXPERIENCE AS INSULAR ECONOMIC ENTITIES WILL ENABLE US TO ASSIST AND GUIDE OUR NEIGHBORS IN TRANSLATING THE CBI INTO MEANINGFUL BENEFITS FOR THE PEOPLE OF THOSE ISLANDS, BENEFITS THAT WILL ENABLE THEM TO GROW ECONOMICALLY, SOCIALLY AND POLITICALLY STRONG AS WE HAVE. FOR IT IS THE PEOPLE OF THOSE ISLANDS, THE BODY POLITIC, OUR FRIENDS, NEIGHBORS AND RELATIVES, THAT WILL DETERMINE THE SUCCESS OR FAILURE OF THE CBI. BUT, WE CANNOT BE AN ALLY TO OUR FRIENDS AND RELATIVES IN THE CARIBBEAN OR HELP THE UNITED STATES IN ACHIEVING ITS GOALS IF WE ARE FORCED INTO MORTAL COMPETITIVE COMBAT OVER RUM. THERE IS FAR MORE AT STAKE HERE THAN A HANDFUL OF MULTI-NATIONAL RUM PRODUCERS.

I URGE YOU AND YOUR COMMITTEE, MR. CHAIRMAN, TO RECOGNIZE THE REALITY OF OUR CONCERN AND THE SINCERITY OF OUR EFFORTS TO RESOLVE THAT ISSUE IN THE BEST INTEREST OF ALL CONCERNED. I WILL REPEAT OUR WILLINGNESS TO WORK WITH YOU AND YOUR COMMITTEE ON AN ACCEPTABLE RESOLUTION.

STATEMENT OF CONGRESSMAN RON DE LUGO
SENATE COMMITTEE ON ENVIRONMENT
AND PUBLIC WORKS
SUBCOMMITTEE ON ENVIRONMENTAL POLLUTION

MR. CHAIRMAN:

I APPEAR BEFORE THE SUBCOMMITTEE TODAY TO DISCUSS ONE NARROW ISSUE THAT HAS ENORMOUS RAMIFICATIONS FOR THE PEOPLE OF THE UNITED STATES VIRGIN ISLANDS. THIS ISSUE AFFECTS MY CONSTITUENTS ALONE AND IS ONE THAT I FIRST RAISED BEFORE THIS SUBCOMMITTEE IN 1977.

THE ECONOMIC WELL-BEING OF THE VIRGIN ISLANDS HAS BEEN BUILT UPON THE CONTINUED VITALITY OF TWO INDUSTRIES: TOURISM AND RUM PRODUCTION. WE WELL UNDERSTAND THE IMPORTANCE OF PROTECTING THE ENVIRONMENT. THE NATURAL BEAUTY OF OUR ISLANDS IS RESPONSIBLE FOR THE LIVELIHOOD OF THOUSANDS OF VIRGIN ISLANDERS. AT THE SAME TIME, WE RECOGNIZE THE NECESSITY THAT OUR ISLANDS CONTINUE TO DEVELOP ECONOMICALLY, CONSISTENT WITH OUR ENVIRONMENTAL CONCERNS.

RUM PRODUCTION IS AN ACTIVITY THAT IS OF CRUCIAL IMPORTANCE TO THE ECONOMY OF THE VIRGIN ISLANDS. THIS IMPORTANCE LIES NOT SO MUCH IN THE JOBS AND INVESTMENT THAT ARE INVOLVED IN RUM PRODUCTION, ALTHOUGH THE ONE HUNDRED JOBS AND THE INVESTMENT OF A FEW MILLION DOLLARS ASSOCIATED WITH RUM PRODUCTION ARE SIGNIFICANT IN AN ECONOMY AS SMALL AS OURS. RATHER, THIS SUBCOMMITTEE SHOULD BE AWARE THAT FOR EVERY PROOF GALLON OF VIRGIN ISLANDS RUM SOLD IN THE UNITED STATES, THE GOVERNMENT OF THE VIRGIN ISLANDS RECEIVES THE $10.50 EXCISE TAX COLLECTED BY THE FEDERAL GOVERNMENT. THIS EXCISE TAX REBATE SYSTEM PROVIDED NEARLY $35 MILLION TO THE VIRGIN ISLANDS GOVERNMENT DURING FISCAL 1982. THAT IS ABOUT $300 FOR EACH VIRGIN ISLANDER, MAN, WOMAN, AND CHILD, AND IT CONSTITUTES THE LARGEST SOURCE OF REVENUE FOR THE TERRITORIAL GOVERNMENT APART FROM INCOME TAXES. CONSEQUENTLY, MR. CHAIRMAN, ANY ACTION WHICH ELIMINATES OR SIGNIFICANTLY HARMS OUR RUM INDUSTRY WOULD BE A SERIOUS BLOW TO THE PEOPLE AND GOVERNMENT OF THE VIRGIN ISLANDS.

TODAY, THE VIRGIN ISLANDS RUM INDUSTRY FACES TWO THREATS TO ITS FUTURE EMANATING FROM PROPOSED OR EXISTING FEDERAL LEGISLATION. ONE IS THE PROPOSAL, CONTAINED IN THE BILL IMPLEMENTING THE ADMINISTRATION'S CARIBBEAN BASIN INITIATIVE, THAT WOULD GRANT UNLIMITED DUTY-FREE ENTRY INTO THE U.S. TO RUM PRODUCED IN FOREIGN CARIBBEAN COUNTRIES. UNLIKE THE BRAND-NAME RUMS PRODUCED IN PUERTO RICO, VIRGIN ISLANDS RUM IS ESPECIALLY SENSITIVE TO PRICE COMPETITION. A SUDDEN INFLUX INTO THE UNITED STATES OF INEXPENSIVE FOREIGN CARIBBEAN RUM WOULD, THEREFORE, HAVE A DISPROPORTIONATE IMPACT ON THE RUM INDUSTRY OF THE VIRGIN ISLANDS.

THE SECOND, AND MORE IMMEDIATE, THREAT IS THE POSSIBILITY THAT THE ENVIRONMENTAL PROTECTION AGENCY WILL FORCE THE CONSTRUCTION OF A COSTLY AND ENVIRONMENTALLY UNJUSTIFIED TREATMENT FACILITY TO TREAT THE BIODEGRADABLE EFFLUENT PRODUCED IN THE COURSE OF RUM DISTILLERY OPERATIONS. MR. CHAIRMAN, I BELIEVE THERE IS NO OTHER REGULATORY DECISION INVOLVING THE CONSTRUCTION OF A SINGLE INDUSTRIAL TREATMENT FACILITY THAT HAS AS GREAT A POTENTIAL IMPACT ON A STATE OR TERRITORIAL GOVERNMENT AS DOES THIS CASE. UNFORTUNATELY, I MUST REPORT TO YOU TODAY THAT MORE THAN FIVE YEARS OF ATTEMPTS TO OBTAIN ADMINISTRATIVE RELIEF HAVE NOT PRODUCED A SATISFACTORY RESULT.

THE BIODEGRADABLE EFFLUENT PRODUCED BY RUM DISTILLING OPERATIONS IS CURRENTLY DISCHARGED THROUGH AN OUTFALL INTO THE OXYGEN-RICH WATERS OF THE CARIBBEAN SEA OFF THE SOUTH SHORE OF ST. CROIX. THERE IT IS RAPIDLY ASSIMILATED WITHOUT CAUSING ENVIRONMENTAL HARM. THIS DISCHARGE IS NOT THE SOURCE OF LOCAL COMPLAINT. ON THE CONTRARY, THEY QUESTION, WHY A COMPANY SHOULD BE FORCED TO SPEND MILLIONS OF DOLLARS, AT LEAST TWICE THE BOOK VALUE OF ITS EXISTING FIXED PLANT, TO TREAT A DISCHARGE WHICH NO ONE HAS SHOWN TO CAUSE ANY IDENTIFIABLE HARM TO THE ENVIRONMENT.

LOCAL ENVIRONMENTAL AUTHORITIES ARE IN AGREEMENT ON THE BENIGN NATURE OF THIS EFFLUENT. THEY ARE CONCERNED ONLY ABOUT THE TEMPORARY DISCOLORATION TO THE OCEAN WATER CAUSED BY THE EFFLUENT PRIOR TO ITS DISPERSION. THEY TELL ME, HOWEVER, THAT THIS CONCERN COULD BE ADDRESSED BY THE ADDITION OF DIFFUSION EQUIPMENT TO THE END OF THE OUTFALL LINE, SOMETHING THE DISTILLER IS PREPARED TO INSTALL. DESPITE THE GOVERNMENTAL AND PUBLIC CONSENSUS THAT PHYSICAL OR CHEMICAL WATER QUALITY OFF OF ST. CROIX IS NOT BEING HARMED BY RUM EFFLUENT DISCHARGES, EPA HAS, TO THIS POINT, INSISTED UPON THE CONSTRUCTION OF A WASTE TREATMENT FACILITY. WHAT COMPOUNDS OUR CONCERN IS THAT THE FACILITY PROPOSED WOULD CONTRIBUTE TO AIR POLLUTION AND POSSIBLY EVEN CREATE A SOLID WASTE DISPOSAL PROBLEM WHILE DOING NOTHING TO ENHANCE THE QUALITY OF THE RECEIVING WATERS.

WHY HAS EPA TAKEN THIS POSITION? SUCH A FACILITY IS SUPPOSEDLY JUSTIFIED BY AN INTERPRETATION OF THE CLEAN WATER ACT IN WHICH EPA PLACES A PRIORITY ON THE REDUCTION OF THE EFFLUENT'S OXYGEN ABSORBING CAPACITY, TO THE EXCLUSION OF CONSIDERATION OF FACTORS OF WATER QUALITY, OTHER ENVIRONMENTAL IMPACTS, OR WHETHER ANY PERSON, FISH, OR PLANT WILL BE BETTER OFF AS A RESULT. THIS PERCENTAGE REDUCTION NUMBERS GAME IGNORES AN IMPORTANT FACT. THE WATERS OF THE CARIBBEAN SEA INTO WHICH THE DISCHARGE IS MADE ARE FULLY CAPABLE OF SUPPLYING THE OXYGEN TO CAUSE THE BREAKDOWN OF THE EFFLUENT WITHOUT HARMING MARINE LIFE. HOW DO I KNOW THIS? BECAUSE IT HAS BEEN GOING ON FOR MORE THAN FIFTEEN YEARS WITH NO FISH KILLS, NO SMELL, NO CONTAMINATION OF DRINKING WATER OR FOOD SUPPLY, NO ENDANGERMENT OF ANY SPECIES, AND NO PUBLIC DISTRESS.

DESPITE PENDING EFFORTS ON THE PART OF RUM PRODUCERS AND POLITICAL LEADERS IN THE VIRGIN ISLANDS TO PERSUADE EPA TO ALTER ITS ADMINISTRATIVE APPROACH, THERE APPEARS TO BE NO CERTAINTY THAT A REGULATORY SOLUTION TO THIS PROBLEM WILL BE FORTHCOMING. CONTINUED INSISTENCE UPON THE CONSTRUCTION OF THE TREATMENT FACILITY PROPOSED BY EPA WILL SEVERELY JEOPARDIZE THE ABILITY OF VIRGIN ISLANDS RUM PRODUCERS TO COMPETE SUCCESSFULLY IN A PRICE-SENSITIVE MARKET. EVEN IF THERE WERE NO CBI LEGISLATION PENDING, THIS SITUATION WOULD BE DESERVING OF LEGISLATIVE RELIEF.

MR. CHAIRMAN, YOU WILL RECALL THE EFFORTS THAT WERE MADE LAST YEAR TO SOLVE THIS REGULATORY PROBLEM. TWICE IN 1982 THE HOUSE PASSED AN AMENDMENT I PROPOSED THAT WOULD HAVE PLACED THE CONTROL OF DISCHARGES OF DISTILLERY EFFLUENT IN THE HANDS OF THE VIRGIN ISLANDS GOVERNMENT, WHERE A MEANINGFUL ASSESSMENT OF THE ENVIRONMENTAL CONSEQUENCES OF THESE EFFLUENT DISCHARGES CAN BE MADE. A COPY OF MY AMENDMENT, WHICH WOULD PROTECT WATER QUALITY AND PERMIT TREATMENT LEVELS TO BE BASED ON OBSERVABLE ENVIRONMENTAL CONDITIONS, IS ATTACHED AT THE END OF MY STATEMENT. JURISDICTIONAL CONSIDERATIONS IN THE SENATE PREVENTED ENACTMENT OF MY AMENDMENT LAST YEAR. I ASK THIS SUBCOMMITTEE NOW TO GIVE IT FAVORABLE AND EXPEDITIOUS CONSIDERATION.

THIS YEAR MY AMENDMENT IS INCLUDED IN LEGISLATION INTRODUCED ON BEHALF OF THE ADMINISTRATION TO IMPLEMENT THE TRADE AND TAX PROVISIONS OF THE CARIBBEAN BASIN INITIATIVE, S. 544. THERE IS A RECOGNITION IN MANY QUARTERS, INCLUDING THE ADMINISTRATION, THAT IT IS SIMPLY UNFAIR FOR THE VIRGIN ISLANDS RUM INDUSTRY TO BE FORCED TO COPE WITH INCREASED COMPETITION FROM NEIGHBORING ISLANDS NOT SUBJECT TO THE JURISDICTION OF THE EPA OR THE REQUIREMENTS OF THE CLEAN WATER ACT AND, AT THE SAME TIME, BEAR THE UNPRECEDENTED AND UNPRODUCTIVE INCREASE IN PRODUCTION COSTS THAT TREATMENT FACILITY CONSTRUCTION AND OPERATION WOULD ENTAIL. I SHOULD POINT OUT THAT INCREASED RUM PRODUCTION IN NEIGHBORING ISLANDS AT THE EXPENSE OF VIRGIN ISLANDS RUM PRODUCERS WOULD SIMPLY RESULT IN INCREASED DISCHARGES OF RUM DISTILLERY EFFLUENT INTO THE SAME BODY OF WATER FROM DIFFERENT LOCATIONS IN THE CARIBBEAN.

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MR. CHAIRMAN, I AM SENSITIVE TO THE JURISDICTIONAL CONCERNS OF THIS SUBCOMMITTEE AND THE COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS. I CAN UNDERSTAND WHY SOME BELIEVE THAT AMENDMENTS TO THE CLEAN WATER ACT, AND NOT THE CBI, ARE THE PROPER LEGISLATIVE VEHICLE FOR ANY REGULATORY RELIEF FOR THE VIRGIN ISLANDS RUM INDUSTRY. IN FACT, WHEN THE HOUSE SUBCOMMITTEE ON WATER RESOURCES, OF WHICH I AM A MEMBER, CONSIDERS AMENDMENTS TO THE CLEAN WATER ACT, I WILL SEEK TO HAVE MY AMENDMENT INCLUDED IN ANY BILL THE SUBCOMMITTEE REPORTS.

WE CANNOT IGNORE, HOWEVER, THE PRESENCE OF THE CBI, THE ADMINISTRATION'S COMMITMENT TO SEE IT ENACTED QUICKLY, OR THE DEVASTATING EFFECT THAT SUCH ENACTMENT WOULD HAVE IN THE ABSENCE OF REGULATORY RELIEF FOR THE VIRGIN ISLANDS RUM INDUSTRY. IN THE EVENT THAT LEGISLATIVE ACTION ON THE CBI PRECEDES ACTION ON CLEAN WATER ACT AMENDMENTS, I ASK THAT THERE BE NO JURISDICTIONAL OBJECTIONS TO THE INCLUSION OF MY AMENDMENT IN THE CBI. CBI LEGISLATION THAT ALLOWS INCREASED DUTY-FREE TREATMENT FOR FOREIGN CARIBBEAN RUM WHILE FAILING TO PROVIDE ADEQUATE REGULATORY RELIEF TO THE VIRGIN ISLANDS RUM INDUSTRY WOULD BE A TRUE HARDSHIP FOR THE VIRGIN ISLANDS.

IN CLOSING, LET ME SPEAK TO THE SPECIFIC EFFECTS OF MY AMENDMENT. IT WOULD, IN SUM, GRANT THE VIRGIN ISLANDS GOVERNMENT CONTROL OVER THE DETERMINATION OF TREATMENT LEVELS FOR THE VIRGIN ISLANDS RUM INDUSTRY'S NON-TOXIC EFFLUENT. FIRST, THE TERMS OF MY AMENDMENT WOULD ENSURE THE LOCAL WATER QUALITY IS PROTECTED, AND PROTECTED BY PEOPLE WHO CANNOT AFFORD TO ALLOW THEIR OCEAN WATER QUALITY TO DETERIORATE. WHAT IS CHANGED BY MY AMENDMENT? SIMPLY

THIS -- IT AVOIDS THE AUTOMATIC APPLICATION OF TREATMENT STANDARDS THAT WOULD BE JUSTIFIED WITH RESPECT TO DISCHARGES INTO LAKES AND RIVERS IN THE MAINLAND UNITED STATES, BUT MAKE LITTLE SENSE WITH RESPECT TO A DISCHARGE INTO THE HIGHLY OXYGENATED OPEN OCEAN WATERS OF THE TROPICS. SECOND, THE ONLY PEOPLE CONCEIVABLY AFFECTED BY RUM INDUSTRY DISCHARGES ARE VIRGIN ISLANDERS. LOCAL CONTROL OF THESE DISCHARGES WOULD NOT PREJUDICE THE INTERESTS OF ANY OTHER ISLAND OR TERRITORY, AMERICAN OR NON-AMERICAN. THIRD, LOCAL CONTROL IS CONSISTENT WITH THE PRINCIPLE OF STATE "PRIMARY RESPONSIBILITY" FOUND IN SECTION 101(B) OF THE CLEAN WATER ACT. FINALLY, I WANT TO EMPHASIZE THAT ENACTMENT OF MY AMENDMENT WOULD NOT PROVIDE A PRECEDENT FOR OTHER CHANGES TO THE CLEAN WATER ACT. IT WOULD NOT ATTRACT RUM DISTILLERS FROM ELSWHERE IN THE U.S. SINCE IT PROVIDES RELIEF ONLY FOR EXISTING POINT SOURCES. IT WOULD NOT PROVIDE VIRGIN ISLANDS DISTILLERS WITH AN UNFAIR COMPETITVE ADVANTAGE OVER OTHER U.S. RUM DISTILLERS.

MR. CHAIRMAN, I ASK THAT MY AMENDMENT BE INCLUDED IN ANY CLEAN WATER ACT AMENDMENTS REPORTED BY THIS SUBCOMMITTEE AND THAT THERE BE NO JURISDICTIONAL OBJECTIONS TO THE INCLUSION OF MY AMENDMENT IN ANY CBI LEGISLATION WHICH MAY BE ENACTED. AT THIS TIME I WOULD BE PLEASED TO RESPOND TO ANY QUESTIONS OR COMMENTS MEMBERS OF THE SUBCOMMITTEE MAY HAVE.

PROPOSED VIRGIN ISLANDS RUM DISCHARGE AMENDMENT

Any discharge from a point source in the United States Virgin Islands in existence on the date of the enactment hereof which discharge is attributable to the manufacture of rum (alcoholic spirits classified under items 169.13 and 169.14 of the Tariff Schedules of the United States (19 U.S.C. § 1202)) shall not be subject to the requirements of section 301 (other than toxic pollutant discharges), section 306 or of section 403 of the Federal Water Pollution Control Act if --

(1) such discharge occurs at least 1,500 feet into the territorial sea from the line of ordinary low water from that portion of the coast which is in direct contact with the sea, and

(2) the Governor of the United States Virgin Islands determines that such discharge will not interfere with the attainment or maintenance of that water quality which shall assure protection of public water supplies, and the protection and propagation of a balanced population of shellfish, fish, and wildlife, and allow recreational activities, in and on the water and will not result in the discharge of pollutants in quantities which may reasonably be anticipated to pose an unacceptable risk to human health or the environment because of bioaccumulation, persistency in the environment, acute toxicity, chronic toxicity (including carcinogenicity, mutagenicity, or teratogenicity), or synergistic propensities.

Senator WEICKER. Governor.

STATEMENT OF HON. JULIO BRADY, LIEUTENANT GOVERNOR, THE VIRGIN ISLANDS OF THE UNITED STATES, ACCOMPANIED BY WILLIAM BLUM, COUNSEL TO THE GOVERNOR

Mr. BRADY. Thank you, Mr. Chairman. Good morning. First I would like to thank you personally for the great amount of interest and sensitivity you have shown to issues affecting the territory of the Virgin Islands in particular, and this hearing being the latest manifestation of it. We appreciate your concern and your interest.

Of course, I apologize that Governor Luis was unable to be here. Pressing matters in the territory involving the legislature and appointments kept him at home, and he asked me to come to represent himself and the people of the Virgin Islands before this committee on this very important issue.

I will not belabor the points made by Congressman de Lugo because I think he has outlined very clearly and succinctly the importance of this issue to us. It is really a matter of economic survival to us as far as we are concerned because the excise tax fund, the refund of those moneys, have become to us the only predictable and secure source of revenue that we can use for our planning and our development, and indeed in my judgment it will be retrogressive when we are trying to develop a degree of self-sufficiency from the United States to take away that instrument which we have been using, and I think using well, to develop a greater sense and a greater degree of self-sufficiency because in any matter like this it is a balance, a balance between competing interests.

Frankly, I don't believe in competing interests here. As Congressman de Lugo said, nothing we are asking for will in any way endanger or dampen the beneficial effects that the administration and hopefully Congress is trying to achieve with our neighbors in the Caribbean. The bulk rum industry that the Virgin Islands is asking for protection of will not indeed in any way hamper the growth of the development of those areas.

The proposal that Congressman de Lugo and many other of his colleagues have cosponsored and introduced will in fact set up a fund which will be available to all of the beneficiary nations in the Caribbean, a fund derived from the duties and the excise taxes of all rum that is taxable and shipped to the United States. That fund can be used by those countries in the same sense that our refund of the excise taxes has been used—to identify a secure and predictable source of revenue and to use that source of revenue to meet the priorities and the goals of the member governments of those countries.

I think that is in far, far more in keeping with the administration's theory that we are trying to help our neighbors help themselves. I think it is far more in keeping with sound economic and foreign policy and does no harm to anyone, but does in fact achieve a measure of protection for Americans in the Caribbean, and as you know, Mr. Chairman, the Virgin Islands is not just special people to the United States. We are Americans. We are America in the Caribbean along with Puerto Rico, and we would then ask for this committee and indeed the Congress and the administration to

give us that care, that concern, and that consideration that it would give for any constituents on the mainland, and with those thoughts in mind, we again express our appreciation to this committee for its continued interest, and we ask that the de Lugo proposal be given the serious consideration it so justly deserves.

Thank you very much.

[The prepared statement of Governor Luis follows:]

STATEMENT OF

HONORABLE JUAN LUIS, GOVERNOR

UNITED STATES VIRGIN ISLANDS

Mr. Chairman, distinguished members of the Committee, first, I wish to take this opportunity to express my appreciation for the special efforts you have made to give us this chance to review with you the impact on the Virgin Islands and Puerto Rico of the President's Caribbean Basin Initiative (CBI) plan. As you know, the Virgin Islands has been working with the House Ways and Means and Senate Finance Committees to explain why the Territory supports the renewed commitment to the region embodied by the CBI and to request certain amendments to the CBI that are needed to ensure that the Virgin Islands has the opportunity to continue to grow and prosper. As the Committee responsible for legislation affecting the Territories, your involvement and support is especially welcome in the resolution of the important issues facing the Virgin Islands in the CBI.

Last year I urged Congress to adopt certain amendments to the CBI which would maintain and improve the ability of the Virgin Islands to continue to develop its economy in the context of the far-reaching free trade provisions of the CBI. Primary among these amendments was a provision that would have limited the amount of duty-free rum that could enter the United States from the non-U.S. Caribbean.

This April I presented, jointly with Congressman Ron deLugo, a new rum proposal to the Finance Committee which we believe offers substantially greater benefits to the Caribbean region than the

Administration proposal, while providing legitimate protection for the Virgin Islands bulk rum industry -- the most price sensitive and import sensitive segment of the U.S. rum market. Our new proposal will generate more jobs and more government revenues for the foreign Caribbean than the Administration proposal. It has been endorsed by the U.S. Commerce Department-sponsored Puerto Rico-Virgin Islands District Export Council, a group representing the private sector in the U.S. Caribbean. The proposal deserves the support of this Committee.

Protection of the Virgin Islands bulk rum industry is essential to the long-term financial stability of the Virgin Islands Government, as well as the long-term survival of the Territory's rum industry. Because for 30 years Congress has returned to the Virgin Islands the excise taxes on Virgin Islands rum sold in the United States, the rum industry generates for the Territory approximately 35 million dollars per year, about 15% of the Virgin Islands annual budget. These funds are used to finance the construction of sorely-needed capital projects which provide jobs and improved infrastructure such as reliable supplies of water and power, improved roads and schools, etc. These in turn are urgently needed to attract new private investment and more jobs.

About 97% of the rum produced in the Virgin Islands and sold in the U.S. market is shipped in bulk. Bulk rum is a price-sensitive and import-sensitive commodity. It is used in pre-mixed

cocktails and food preparation and is bottled under various private labels. Purchasers of bulk rum are most interested in obtaining the least expensive product available.

Bottled rum on the other hand is generally sold as a name brand product and thus is not as sensitive to competition from lower cost products.

The Administration CBI bill recognizes that the Virgin Islands and Puerto Rico stand to lose rum sales to low-priced foreign Caribbean nations once the tariff is removed, due to the low wage rates and the lack of regulatory standards in these countries. Under the Administration CBI, the Virgin Islands and Puerto Rico would receive, in addition to the excise taxes imposed on their own rums, the excise taxes imposed on foreign rums as well. While this provision would provide some immediate protection against loss of revenue due to displacement of V.I. and Puerto Rico domestic rum by rum of foreign manufacture, it does nothing to protect the industries themselves in the long run. Under the Administration CBI bill, the Virgin Islands bulk rum industry would soon disappear and the excise tax revenues returned to the Virgin Islands for capital projects, then no longer bearing any relation to rum production in the Territory, would be put in jeopardy.

The Virgin Islands and Puerto Rico have developed an alternative which would not only protect our domestic bulk rum industries, but would also provide duty-free access to the United States for all bottled rum produced in CBI countries. However, unlike the previous proposed amendment, our present alternative takes the foreign rum excise taxes that would have been returned to the V.I. and Puerto Rico under the Administration's plan and deposits them into a special Caribbean Regional Development Fund. This fund would be used to finance planned infrastructure development of island beneficiary countries in the Caribbean. Under our proposal the Eastern Caribbean countries would receive an additional $50 million and the Caribbean island-nations as a whole an additional $165 million dollars over the 12 years of the CBI. These funds would be provided at no more cost to the Treasury than would be the case under the Administration's plan.

Our proposal, by eliminating the duty on bottled rum, also provides an incentive for Caribbean countries to bottle their own rum. Because bottling is labor intensive, our proposal would encourage job creation in the region. At the same time, the regional development fund would be used to finance capital projects, and through their multiplier effects, would benefit directly the island governments and their people.

In comparison, the Administration proposal would only create an insignificant number of jobs in the bulk rum industry. Many

of the multi-national companies that own the larger rum distilleries in the non-U.S. Caribbean presently have unused capacity at these distilleries, so additional bulk rum production will not necessarily result in additional jobs. While the Administration proposal may result in increased profits for multinational companies, they would come at the expense of the well-being of the U.S. Territories in the region. Interestingly, the Administration proposal would not result in any significant increase in revenues to Caribbean governments, whereas the V.I./Puerto Rico proposal would provide these governments with about $10-15 million dollars per year in direct revenues.

A concern has been raised that the V.I.-Puerto Rico proposal may prevent the rum producing CBI countries from taking advantage of the duty-free provisions of the CBI because most of their current production is bulk rum. It has been stated that bottling of rum before export to the U.S. would make it uncompetitive. We believe strongly that the V.I.-Puerto Rico rum proposal would <u>not</u> result in significantly less access to the U.S. markets than the Administration's proposal for the vast majority of rums currently produced in the foreign Caribbean. Indeed, despite concerns about higher shipping costs for bottled rum, it is our understanding that the foreign rums presently shipped to the U.S. in bulk could easily and profitably be bottled in the producing countries without competitive disadvantage.

This is because the cost differential for shipping bottled rum, as opposed to bulk, from Jamaica to U.S. Gulf ports is less than 50 cents per proof gallon, assuming the bulk rum is shipped at 180 proof. At the lower proof that much of the aged foreign rum is shipped, this differential is significantly less. Also, the shipping differential from other Caribbean ports to the U.S. is even less than 50 cents, and in some cases bottled and bulk rum shipping costs are about the same. These differentials are further mitigated by the lower cost of labor in the Caribbean.

In short, in no instance is the difference in shipping bottled rum, as opposed to bulk, even close to the $1.57 per proof gallon tariff on bottled rum that the V.I.-Puerto Rico proposal would eliminate. Thus it would appear to be a highly unusual logic which suggests that an additional market preference of 0 to 50 cents per proof gallon could be worth the cost of labor-intensive bottling jobs in the Caribbean countries, millions of dollars in direct government revenues to these countries, the development of sorely needed infrastructure, and the hundreds of construction jobs and additional investment that our proposal would bring to the region.

Finally, according to the State Department, duty-free treatment for Caribbean rum may have gained symbolic importance in the context of CBI and is a political reality which the United States must constructively address. But as this Committee is well aware, we in the Virgin Islands face another reality --the distinct

probability that the customers in the United States who buy Virgin Islands unaged rum on price considerations alone, who comprise the great majority of our market, will turn to foreign Caribbean rum once the tariff on bulk rum is removed. This would give the Virgin Islands little alternative but to turn again to Congress to request increased ad hoc appropriations to fund needed capital improvements now made possible by the rum matching fund. This is a step backward that this Committee should not permit. This is especially true at this time when the Virgin Islands has finally reached the point where our ability to meet many of our own needs has been increasing to such an extent that, in a few years, the Territory may not need to request any new federal appropriations.

I wish to comment briefly on two other sections of the CBI legislation. First, the House of Representatives last year adopted a provision which this Committee had previously considered, to exempt the existing Virgin Islands rum distillery from EPA discharge requirements provided the Governor of the Virgin Islands determines that the exemption will not adversely affect water quality. The Administration has included the provision in this year's CBI legislation. In May, the Senate Finance Committee voted to retain this provision. I wish to express my appreciation to the Administration and to this Committee and the Senate Finance Committee for their support. The provision will be of significant assistance to our local rum industry should the industry be allowed to continue to prosper under CBI, as amended by our rum proposal.

Second, the House and the Administration have added a new provision to the CBI legislation to permit U.S. taxpayers to deduct the cost of attendance at foreign conventions in CBI countries. The Virgin Islands opposes this additional tax benefit -- which is projected to cost the U.S. Treasury millions of dollars a year -- because of the adverse impact it would have on tourism in the Virgin Islands and Puerto Rico. Visitor air arrivals to the Virgin Islands have declined by about 25% from 1979 to 1982. A provision such as this can only serve to impede progress toward recovery of the Virgin Islands tourism industry. It is ironic, moreover, that while the Administration is willing to forego tax revenues in order to encourage tourism in the foreign Caribbean, it is at the same time delaying commitment of federal funds for the expansion of the St. Thomas airport which is necessary to allow the Virgin Islands to compete with its island neighbors for the tourist dollar. Since the Administration has proposed that eligibility for this tax benefit be conditioned on the execution of tax exchange of information agreements between the United States and CBI beneficiary countries, we would respectfully propose that such benefits in addition be conditioned on the Administration providing satisfactory commitments for the financing and completion of the St. Thomas airport.

The Virgin Islands has consistently supported the concept of the CBI as a recognition by the U.S. Government of the importance of the Caribbean region. But clearly, the legislation implementing CBI must be structured to avoid damage to the already strained economy of the U.S. Virgin Islands, now bearing the severe impact of federal budget and tax cuts and recent industrial layoffs, together with insufficient infrastructure and limited capital resources. The proposal developed by the Virgin Islands and Puerto Rico will not only accomplish this objective but it will also provide additional benefits to the foreign countries in the region without additional federal expenditures. I strongly urge this Committee's support. Thank you.

Senator WEICKER. The Senate was contemplating tacking the CBI under the dividend repealer just this past week, and there is a good possibility that will happen, next week.

Now my question is very specific since we are dealing with a timeframe. Is there any specific language that you would like to see introduced to the CBI legislation when it comes on the floor of the Senate?

Mr. BRADY. Let me defer to our delegate.

Mr. DE LUGO. I have some specific language here, Mr. Chairman, and I would say that at this point, I agree with the Governor that the proposal that we introduced I think is very imaginative and really captures the spirit of the CBI.

However, it has been rejected by the countries of Caracome. I really introduced it on the House side to show the political support that we have with 122 other Members.

Senator WEICKER. I might add I agree also with your proposal, but now we are dealing with a reality. I want to make sure that whatever we get out there we can pass.

Mr. DE LUGO. Now what I am proposing here or the language I have here, a section-by-section analysis, it is very brief. Section 3 of subsection 103(b) provides duty free treatment for all bottled rum and all but the most inexpensive bulk rum.

Rum valued at or below $3.50 per proof gallon will continue to be subject to the existing tariff. Valuation of imported rum shall be performed in accordance with standard Custom procedure as required by section 402 of the Tariff Act of 1930 as amended with one important exception. In order to preclude attempts to defeat the intent of this subsection by setting up a rebate scheme under which a seller directly or indirectly rebates a portion of the purchase price to the purchaser after shipment of bulk rum has entered the United States duty free, any valuation of bulk rum shipments shall include any rebate of or other decrease in the price actually paid or payable that is made or otherwise effected, for example, between the buyer and the seller, subsequent to the date of importation of a bulk rum shipment. Under no circumstances shall any Federal or state excise or any tariff be included in any bulk rum valuation determination.

And we sent up a copy. You have a copy of it, the proposal? That simply protects everything under $3.50.

Senator WEICKER. What has been the response by the administration?

Mr. DE LUGO. It has not been rejected. In other words, we have just floated this idea.

Senator WEICKER. Have you had a chance to discuss it with your colleagues from Puerto Rico?

Mr. DE LUGO. Yes. They accepted it. I might say, Senator, that aside from the protection it affords us, I think that it is politically—the President of the United States can say to the country you can show ship into the United States all of the rum that presently you make duty free. The only thing that is protected here is the low end of the market, the bulk rum, that is not presently shipped into the United States by these foreign countries, and they say they don't want to.

Senator WEICKER. Well, if indeed this is a point that should be pursued, may I recommend—we will hear from representatives of Puerto Rico here in a minute—but may I suggest that everybody get their act together before next week because that is when I am going to be confronted with that legislation. I interposed an objec-

tion to a unanimous consent request of having CBI raised this week, but I would suspect it is going to be on the floor next week, I am perfectly willing to do everything I can on behalf of the Virgin Islands and Puerto Rico relative to any problem which exists. I think the CBI is very fine stuff. It is the first step in the right direction. No. 1, I don't think it happens to tackle the real problems of the area.

No. 2, I certainly don't want to see our interests damaged to resolve other problems, but if we are going to do this, we have got to do it in pretty rapid fire order. I will have a chance to get a comment from Puerto Rico, and I think it is essential that we are all together on this before offering an amendment on the floor of the Senate. I don't want to offer the amendment and have somebody say well, Puerto Rico is opposed to it. The Virgin Islands is for it.

Mr. DE LUGO. On that, Mr. Chairman——

Senator WEICKER. I don't mind going with the Virgin Islands and Puerto Rico against the administration. Hopefully the administration will be for it also. That we will all be able to agree on it will be the optimum, but I know one thing—we can't be divided among ourselves.

Mr. DE LUGO. Mr. Chairman, may I clarify? This proposal has not been presented to Puerto Rico yet, I am informed. However, yesterday my colleague and good friend Congressman Corrada testified before the Ways and Means Committee that even if the rum proposal that we proposed on the House side were not incorporated, Puerto Rico would still be able to support the CBI and that Puerto Rico would be able to survive. Their industry would be able to survive because they are in a much stronger position than the Virgin Islands, so Congressman Corrada is very sensitive to the fact that the Virgin Islands is far more vulnerable than Puerto Rico has been. One of the major concerns of Puerto Rico was tuna, which has been taken care of.

Senator WEICKER. The tuna problem in Puerto Rico?

Mr. DE LUGO. Right.

Senator WEICKER. All right. Well, I think you get the message, so let's see what can be done before we get in the next week's work. I think it is going to have to be done over the weekend and I would appreciate your comment or work among staff so that we can get these matters done.

Mr. BRADY. Mr. Chairman, if I may just make a comment, to raise the consciousness on this issue we have been talking about only the bulk rum industry, but another concern that I think is very closely tied to the CBI or should be is our airport development in St. Thomas in particular, and we do have staff working on that, on that issue.

We are trying to come up with an amendment that would include language that may tie it to CBI, so I just wanted to alert you to that. That is another concern that I think appropriately can and should be addressed within this context.

Senator WEICKER. Well, I realize the importance of the airport and you have my total support in obtaining the funds necessary to complete the extension of work.

I am not so sure that we are going to be able to tie it to CBI. I understand what you are saying in terms of the economic develop-

ment of the islands. In terms of enjoying success on the floor of the U.S. Senate—that is all I can speak for—I am not so sure that I want to use that as a vehicle rather than it coming through the appropriations process for the record. I will have to feel that one out.

What I don't want to do is to in any way give the impression that we are trying to kill the CBI, nor do I particularly care to suffer defeat on behalf of a worthy project any more than I do on behalf of the principle which the Congressman discussed relative to CBI, so let me try to weed these things out as a matter of tactics in the coming legislative calendar.

I am not so sure the airport is something that we should try to tack on the CBI.

Mr. BRADY. I understand. I appreciate your comments, and that is precisely why I raised it, so you would be conscious of it.

Senator WEICKER. Well, again, you have my total support on the necessary funds to go ahead and do the job at the airport. There is no problem with that. It is a question of how we best accomplish it, as indeed the question is how we best accomplish the principles enunciated by the Congressman.

Senator Hecht.

Senator HECHT. No questions.

Senator WEICKER. Gentlemen, lady, I thank you very much.

Mr. DE LUGO. Thank you very much, Mr. Chairman.

Senator WEICKER. The last witness is the Honorable Carlos Quiros, the Secretary of State. Please have anybody accompany you that can be of assistance to you and just introduce them to the panel, and your statement in its entirety will be included in the record and you may proceed in any way that you care to.

STATEMENT OF HON. CARLOS S. QUIROS, SECRETARY OF STATE, SAN JUAN, PUERTO RICO

Secretary QUIROS. Thank you, sir. Mr. Chairman, members of the committee, my name is Carlos S. Quiros, and I am secretary of state and lieutenant governor of Puerto Rico. I have been designated by Gov. Carlos Romero-Barcelo to lead the team our government assembled to examine the implication of the Caribbean Basin Initiative for Puerto Rico.

Before proceeding further, let me say something which might surprise some of you. Puerto Rico has been implementing its own Caribbean Basin Initiative for years. We have long recognized the importance of the Basin to Puerto Rico in particular, and to the Nation in general.

The assistance lent by Puerto Rico to Caribbean nations has taken many forms—emergency aid as in the relief missions flown by our National Guard to the Dominican Republic after the disasters of Hurricanes David and Frederick in 1979; technical assistance such as that delivered to Dominica when it installed a new traffic control system using Puerto Rican personnel; and most importantly, increased trade opportunities as in the Caribbean as in the creation of the twin plant concept with Jamaica and other Caribbean nations whereby raw materials undergo semimanufacturing in Jamaica or elsewhere and finishing in Puerto Rico. This system takes

advantage of the comparative strengths of each partner to the benefit of both. neighbors, I have just returned from a trip to Jamaica on which Governor Romero signed two agreements for joint cooperation between Puerto Rico and Jamaica. One of these agreements provided for joint cooperation in such diverse areas as housing, education, and industrial promotion.

The other agreement reaffirmed our intention to use the joint Puerto Rican-Jamaican commission to continue this mutual cooperation in the future.

You can see that our own efforts have largely followed the same general ideas embodied in the legislation proposed by the President—providing technical aid and trading opportunities to the nations of the Caribbean as spurs to economic development for the region. We have done this for altruistic reasons, the desire to see the lot of our fellow peoples of the Caribbean bettered.

We have done this for political and strategic reasons. We believe that only by growing economically can political democracy be ensured.

We have also done this for far more specific reasons. We feel that what benefits the region ultimately benefits Puerto Rico and the rest of the Nation.

That is why we have been extremely supportive of the Caribbean Basin Initiative since it was first presented to us. We remain so in spite of the many voices who claim the initiative is without merit or will cause havoc for the island. Our own past experience proves otherwise. That does not mean we are without concern, and I will enumerate them shortly, but we remain committed to the passage of the CBI.

Our concerns are threefold, and they center on our tuna industry, our rum industry, and our tourist industry. We have asked that canned tuna be removed from the list of the items eligible for duty-free entry as a result of the creation of the 12-year free trade zone. This was accomplished last year, and I note that its exemption is part of the current bill. I state only that I urge that it continued to be exempted.

Of the remaining two issues, I would like to address the tourism question first. The Caribbean Basin Initiative extends tax deductions for conventions to eligible nations of the Caribbean as soon as treaties are signed allowing U.S. inspection of banks located in the signatory nations. As you know, this provision was not part of the original version of the CBI as introduced last year. The tax portion originally included the extension of the accelerated cost recovery system and the investment tax credit to the countries of the Caribbean. It was only as the opposition to that provision developed in Congress that the convention tax credit was offered as a replacement.

The U.S. Treasury Department has estimated that this tax change will cost the people of the United States less than $5 million, but the potential cost to Puerto Rico could be 10 times that amount. That is due to the fact that the conventions which might travel to these nations are the same ones which now take place in Puerto Rico—small- and medium-sized conventions of less than 4 days' duration.

Despite our rapid strides in industrial diversification, tourism remains big business in Puerto Rico. From 1977 to 1981, the number of conventions on the island tripled from 375 to 1,209. The dollar value of these meetings doubled from 168, million in 1977 to 355 million in 1981, but the number of attendees went up by less than 50 percent, from 62,000 to 89,000. This shows that small and medium-sized conventions come to Puerto Rico. This is consistent with our limited hotel capacity, the very same factor limiting convention size in the Caribbean nations.

Thus if this provision is enacted we will be fighting for the same business. Beyond this potential harm to Puerto Rico is a larger question. Puerto Rico has striven for economic diversification precisely because tourism is not a dependable source of income. It is too volatile, too uncertain to be counted on as the mainstay of an economy, yet this portion of the CBI promotes tourism and raises the possibility of economic uncertainty, narrowly defined development, and reliance on service industries rather than manufacturing. It is one thing to make tourism a part of the overall economic development plan, as Puerto Rico has done. It is another to emphasize it to the detriment of other avenues of economic development.

This brings me to our last concern—rum. Rum seems to be the symbol around which the Caribbean nations have rallied. It is understandable. Rum is produced almost everywhere in the Caribbean and many nations take pride in the quality of their product. It is no less true for Puerto Rico. We are proud of the rum produced on the island. In our case as well as the Virgin Islands, our situation is tied up in the return to Puerto Rico of the Federal excise taxes collected on the sale of Puerto Rican rum. These returned taxes totaled $450 million last year. These moneys were used locally for schools, roads, hospitals, health care, and other forms of social assistance.

Clearly the CBI calls for the continued return of these funds as well as moneys collected on the sale of foreign rums to Puerto Rico, but there would be no protection of our industry. Herein lies the problem. Should the rum industry leave Puerto Rico once the tariffs are removed, we would have revenue without a source to create it. I am convinced that in an era of $200 billion budget deficits, such a large anomaly could not exist for long. We would then lose all the way around.

In listening to Mr. Ron deLugo, I just learned that the countries, Caribbean countries, did not agree with the Virgin Islands' proposal that was introduced in the House of Representatives as H.R. 3108. In general terms, I would like to state that Puerto Rico would support the proposal of the Virgin Islands to protect the bulk rum industry. After all, they are not only our closest neighbors. They also are American citizens.

In conclusion let me reiterate once more the importance we in Puerto Rico place on prompt passage of the CBI legislation. So much time has elapsed since the administration originally submitted the CBI bill that our Caribbean neighbors are beginning to doubt the President's promise to help them. Such feelings can only be destructive to our long-run interests in the region and lead to negative feelings and actions against the United States.

Prompt passage of the CBI bill with the minor changes I indicated can forestall this possibility. With this giant step forward, Puerto Rico will stand ready to provide full support to the democratic, free enterprise development of all the peoples of the region.

Thank you, Mr. Chairman, and I will be pleased to answer any questions you may have at this time.

[The prepared statement of Secretary Quiros follows:]

TESTIMONY OF THE HONORABLE
CARLOS S. QUIROS
PUERTO RICO SECRETARY OF STATE

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

MY NAME IS CARLOS S. QUIROS, AND I AM SECRETARY OF STATE AND LIEUTENANT GOVERNOR OF PUERTO RICO. I HAVE BEEN DESIGNATED BY GOVERNOR CARLOS ROMERO-BARCELO TO LEAD THE TEAM OUR GOVERNMENT ASSEMBLED TO EXAMINE THE IMPLICATION OF THE CARIBBEAN BASIN INITIATIVE FOR PUERTO RICO.

BEFORE PROCEEDING FURTHER, LET ME SAY SOMETHING WHICH MIGHT SURPRISE YOU; PUERTO RICO HAS BEEN IMPLEMENTING ITS OWN CARIBBEAN BASIN INITIATIVE FOR YEARS. WE HAVE LONG RECOGNIZED THE IMPORTANCE OF THE BASIN TO PUERTO RICO IN PARTICULAR, AND TO THE NATION IN GENERAL.

THE ASSISTANCE LENT BY PUERTO RICO TO CARIBBEAN NATIONS HAS TAKEN MANY FORMS: EMERGENCY AID AS IN THE RELIEF MISSIONS FLOWN BY OUR AIR NATIONAL GUARD TO THE DOMINICAN REPUBLIC AFTER THE DISASTERS OF HURRICANES DAVID AND FREDERICK IN 1979; TECHNICAL ASSISTANCE SUCH AS THAT DELIVERED TO DOMINICA WHEN IT INSTALLED A NEW TRAFFIC CONTROL SYSTEM USING PUERTO RICAN PERSONNEL; AND, MOST IMPORTANTLY, INCREASED TRADE OPPORTUNITIES AS IN THE CREATION OF THE TWIN PLANT CONCEPT WITH JAMAICA AND OTHER CARIBBEAN NATIONS WHEREBY RAW MATERIALS UNDERGO SEMI-MANUFACTURING IN JAMAICA OR ELSEWHERE AND FINISHING IN PUERTO RICO. THIS SYSTEM TAKES ADVANTAGE OF THE COMPARATIVE STRENGTHS OF EACH PARTNER TO THE BENEFIT OF BOTH.

AS AN ADDITIONAL EXAMPLE OF PUERTO RICO'S ASSISTANCE TO OUR CARIBBEAN NEIGHBORS, I HAVE JUST RETURNED FROM A TRIP TO JAMAICA ON WHICH GOVERNOR ROMERO SIGNED TWO AGREEMENTS FOR JOINT COOPERATION BETWEEN PUERTO RICO AND JAMAICA. ONE OF THESE AGREEMENTS PROVIDED FOR JOINT COOPERATION IN SUCH DIVERSE AREAS

AS HOUSING, EDUCATION AND INDUSTRIAL PROMOTION. THE OTHER AGREEMENT REAFFIRMED OUR INTENTION TO USE THE JOINT PUERTO RICAN-JAMAICAN COMMISSION TO CONTINUE THIS MUTUAL COOPERATION IN THE FUTURE. THESE NEW AGREEMENTS ARE A FURTHER EXAMPLE OF THE POSITIVE CONTRIBUTION WHICH PUERTO RICO IS MAKING IN THE CARIBBEAN. AS THE CBI PROGRAM CONTINUES TO PROGRESS, WE HOPE THAT THE ADMINISTRATION WILL MAKE GREATER USE OF PUERTO RICO'S MANY AND DIVERSE RESOURCES.

YOU CAN SEE THAT OUR OWN EFFORTS HAVE LARGELY FOLLOWED THE SAME GENERAL IDEAS EMBODIED IN THE LEGISLATION PROPOSED BY THE PRESIDENT; PROVIDING TECHNICAL AID AND TRADING OPPORTUNITIES TO THE NATIONS OF THE CARIBBEAN AS SPURS TO ECONOMIC DEVELOPMENT FOR THE REGION.

WE HAVE DONE THIS FOR ALTRUISTIC REASONS; THE DESIRE TO SEE THE LOT OF OUR FELLOW PEOPLES OF THE CARIBBEAN BETTERED. WE HAVE DONE THIS FOR POLITICAL AND STRATEGIC REASONS; WE BELIEVE THAT ONLY BY GROWING ECONOMICALLY CAN POLITICAL DEMOCRACY BE ENSURED. WE HAVE ALSO DONE THIS FOR FAR MORE SPECIFIC REASONS; WHAT BENEFITS THE REGION ULTIMATELY BENEFITS PUERTO RICO AND THE REST OF THE NATION.

THAT IS WHY WE HAVE BEEN EXTREMELY SUPPORTIVE OF THE CARIBBEAN BASIN INITIATIVE SINCE IT WAS FIRST PRESENTED TO US. WE REMAIN SO IN SPITE OF THE MANY VOICES WHO CLAIM THE INITIATIVE IS WITHOUT MERIT OR WILL CAUSE HAVOC FOR THE ISLAND. OUR OWN PAST EXPERIENCE PROVES OTHERWISE. THAT DOES NOT MEAN WE ARE WITHOUT CONCERNS, AND I WILL ENUMERATE THEM SHORTLY, BUT WE REMAIN COMMITTED TO THE PASSAGE OF THE CBI.

OUR CONCERNS ARE THREEFOLD, AND THEY CENTER ON OUR TUNA INDUSTRY, OUR RUM INDUSTRY, AND OUR TOURISM INDUSTRY.

WE HAVE ASKED THAT CANNED TUNA BE REMOVED FROM THE LIST OF ITEMS ELIGIBLE FOR DUTY-FREE ENTRY AS A RESULT OF THE CREATION OF THE TWELVE-YEAR FREE TRADE ZONE. THIS WAS ACCOMPLISHED LAST YEAR, AND I NOTE THAT ITS EXEMPTION IS PART OF THE CURRENT BILL. I STATE ONLY THAT I URGE THAT IT CONTINUE TO BE EXEMPTED.

OF THE REMAINING TWO ISSUES, I WOULD LIKE TO ADDRESS THE TOURISM QUESTION FIRST. THE CARIBBEAN BASIN INITIATIVE EXTENDS TAX DEDUCTIONS FOR CONVENTIONS TO ELIGIBLE NATIONS OF THE CARIBBEAN AS SOON AS TREATIES ARE SIGNED ALLOWING U. S. INSPECTION OF BANKS LOCATED IN THE SIGNATORY NATIONS.

AS YOU KNOW, THIS PROVISION WAS NOT PART OF THE ORIGINAL VERSION OF THE CBI AS INTRODUCED LAST YEAR. THE TAX PORTION ORIGINALLY INCLUDED THE EXTENSION OF THE ACCELERATED COST RECOVERY SYSTEM AND THE INVESTMENT TAX CREDIT TO THE COUNTRIES OF THE CARIBBEAN. IT WAS ONLY AS THE OPPOSITION TO THAT PROVISION DEVELOPED IN CONGRESS THAT THE CONVENTION TAX CREDIT WAS OFFERED AS A REPLACEMENT. THE U. S. TREASURY DEPARTMENT HAS ESTIMATED THAT THIS TAX CHANGE WILL COST THE PEOPLE OF THE UNITED STATES LESS THAN $5 MILLION, BUT THE POTENTIAL COST TO PUERTO RICO COULD BE TEN TIMES THAT AMOUNT. THIS IS DUE TO THE FACT THAT THE CONVENTIONS WHICH MIGHT TRAVEL TO THESE NATIONS ARE THE SAME ONES WHICH NOW TAKE PLACE IN PUERTO RICO; SMALL AND MEDIUM SIZED CONVENTIONS OF LESS THAN FOUR DAYS DURATION.

DESPITE OUR RAPID STRIDES IN INDUSTRIAL DIVERSIFICATION, TOURISM REMAINS BIG BUSINESS IN PUERTO RICO. FROM 1977 TO

1981, THE NUMBER OF CONVENTIONS ON THE ISLAND TRIPLED FROM 375 TO 1,209. THE DOLLAR VALUE OF THESE MEETINGS DOUBLED FROM $168 MILLION IN 1977 TO $355 MILLION IN 1981. BUT THE NUMBER OF ATTENDEES WENT UP BY LESS THAN FIFTY PERCENT, FROM 62,000 TO 89,000.

THIS SHOWS THAT SMALL AND MEDIUM SIZED CONVENTIONS COME TO PUERTO RICO. THIS IS CONSISTENT WITH OUR LIMITED HOTEL CAPACITY, THE VERY SAME FACTOR LIMITING CONVENTION SIZE IN THE CARIBBEAN NATIONS.

THUS, IF THIS PROVISION IS ENACTED, WE WILL BE FIGHTING FOR THE SAME BUSINESS. BEYOND THIS POTENTIAL HARM TO PUERTO RICO IS A LARGER QUESTION. PUERTO RICO HAS STRIVEN FOR ECONOMIC DIVERSIFICATION PRECISELY BECAUSE TOURISM IS NOT A DEPENDABLE SOURCE OF INCOME. IT IS TOO VOLATILE, TOO UNCERTAIN, TO BE COUNTED ON AS A MAINSTAY OF AN ECONOMY. YET, THIS PORTION OF THE CBI PROMOTES TOURISM AND RAISES THE POSSIBILITY OF ECONOMIC UNCERTAINTY, NARROWLY DEFINED DEVELOPMENT, AND RELIANCE ON SERVICE INDUSTRIES RATHER THAN MANUFACTURING. IT IS ONE THING TO MAKE TOURISM A PART OF AN OVERALL ECONOMIC DEVELOPMENT PLAN, AS PUERTO RICO HAS DONE, IT IS ANOTHER TO EMPHASIZE IT TO THE DETRIMENT OF OTHER AVENUES OF ECONOMIC DEVELOPMENT.

THIS BRINGS ME TO OUR LAST CONCERN; RUM. RUM SEEMS TO BE THE SYMBOL AROUND WHICH THE CARIBBEAN NATIONS HAVE RALLIED. IT IS UNDERSTANDABLE. RUM IS PRODUCED ALMOST EVERYWHERE IN THE CARIBBEAN AND MANY NATIONS TAKE PRIDE IN THE QUALITY OF THEIR PRODUCT. IT IS NO LESS TRUE FOR PUERTO RICO. WE ARE PROUD OF THE RUM PRODUCED ON THE ISLAND. IN OUR CASE, AS WELL AS THE

VIRGIN ISLANDS, OUR SITUATION IS TIED UP IN THE RETURN TO PUERTO RICO OF THE FEDERAL EXCISE TAXES COLLECTED ON THE SALE OF PUERTO RICAN RUM. THESE RETURNED TAXES TOTALLED $250 MILLION LAST YEAR. THESE MONIES WERE USED LOCALLY FOR SCHOOLS, ROADS, HOSPITALS, HEALTH CARE AND OTHER FORMS OF SOCIAL ASSISTANCE.

CLEARLY, THE CBI CALLS FOR THE CONTINUED RETURN OF THESE FUNDS, AS WELL AS MONIES COLLECTED ON THE SALE OF FOREIGN RUMS TO PUERTO RICO, BUT THERE WOULD BE NO PROTECTION OF OUR INDUSTRY. HEREIN LIES THE PROBLEM. SHOULD THE RUM INDUSTRY LEAVE PUERTO RICO ONCE THE TARIFFS ARE REMOVED, WE WOULD HAVE REVENUE WITHOUT A SOURCE TO CREATE IT. I AM CONVINCED THAT IN AN ERA OF $200 BILLION BUDGET DEFICITS, SUCH A LARGE ANOMALY COULD NOT EXIST FOR LONG. WE WOULD THEN LOSE ALL THE WAY AROUND.

THAT IS WHY THE VIRGIN ISLANDS-PUERTO RICO RUM PROPOSAL, INTRODUCED IN THE HOUSE OF REPRESENTATIVES AS H.R. 3108, IS SO IMPORTANT. IT FORCES US TO PUT OUR RUM AGAINST NAME BRAND FOREIGN RUMS BY ELIMINATING THE TARIFF ON IMPORTS OF BOTTLED RUM. AT THE SAME TIME, IT PROTECTS OUR BULK RUM MARKET BY RETAINING THAT TARIFF THEREBY NEGATING THE COST ADVANTAGES ENJOYED BY THESE NATIONS. FINALLY, MORE FUNDS WILL BE MADE AVAILABLE TO THE CARIBBEAN NATIONS FOR ECONOMIC DEVELOPMENT PROJECTS. THESE MONIES WILL COME FROM THE EXCISE TAXES ON FOREIGN RUMS ORIGINALLY SCHEDULED TO BE TURNED OVER TO PUERTO RICO AND THE VIRGIN ISLANDS. I URGE THAT THIS AMENDMENT BE ADOPTED WHEN THE LEGISLATION IS CONSIDERED ON THE FLOOR OF THE SENATE.

IN CONCLUSION, LET ME REITERATE ONCE MORE THE IMPORTANCE WE IN PUERTO RICO PLACE ON PROMPT PASSAGE OF THE CBI LEGISLATION. SO MUCH TIME HAS ELAPSED SINCE THE ADMINISTRATION ORIGINALLY SUBMITTED THE CBI BILL THAT OUR CARIBBEAN NEIGHBORS ARE BEGINNING TO DOUBT THE PRESIDENT'S PROMISE TO HELP THEM. SUCH FEELINGS CAN ONLY BE DESTRUCTIVE TO OUR LONG-RUN INTERESTS IN THE REGION, AND LEAD TO NEGATIVE FEELINGS AND ACTIONS AGAINST THE UNITED STATES. PROMPT PASSAGE OF THE CBI BILL WITH THE MINOR CHANGES I INDICATED, CAN FORESTALL THIS POSSIBILITY. WITH THIS GIANT STEP FORWARD, PUERTO RICO WILL STAND READY TO PROVIDE ITS FULL SUPPORT TO THE DEMOCRATIC, FREE-ENTERPRISE DEVELOPMENT OF ALL THE PEOPLES OF THE REGION.

THANK YOU, AND I WOULD BE PLEASED TO ANSWER ANY QUESTIONS YOU MIGHT HAVE AT THIS TIME.

Senator WEICKER. I am not clear in my own mind, I just wanted to have you state the situation as it relates to tourism.

What is it that bothers you about the CBI issue there?

Secretary QUIROS. Well, that it will be a major—that now nations do go to Puerto Rico. They could go some place else because they would have a tax exemption, and as I mentioned, we will be fighting for the same group that is going to Puerto Rico. It is to our benefit, but if they have some tax benefit going to Jamaica or going some place else, we in Puerto Rico will fight for the same group, and that will hurt the tourism industry in Puerto Rico.

Senator WEICKER. At the present time there are not the same tax benefits to holding a convention in the foreign country as there are within the United States or Puerto Rico?

Secretary QUIROS. That is correct, sir. At the present time they are not the same.

Senator WEICKER. CBI does what?

Secretary QUIROS. CBI extends to the conventions going to other nations the same benefits as they would have in Puerto Rico.

Senator WEICKER. Will it be possible for you to get together with Congressman de Lugo so that by next week I might be able to get a reading on whether you are both in the same wicket with relation to this proposal?

Secretary QUIROS. Definitely sir; I will do so.

Senator WEICKER. Senator Hecht?

Senator HECHT. Yes. The last question, the tourism benefit, what do you mean they are not the same? Would you explain that to me?

Secretary QUIROS. Yes, sir. At present, any convention held in Puerto Rico, they are considered as if they were taking place in any part of the country—Wyoming—any place in the States, and with the new CBI that would apply also to conventions being held outside the United States——

Senator HECHT. Excuse me. Say that again, please.

Secretary QUIROS. Right now conventions held in Puerto Rico from tax benefit purposes are exactly alike as conventions held anywhere in the United States.

That is not true for conventions held outside U. S. soil. With the CBI, those provisions, those tax benefits, are also extended to conventions if they were held in the area, countries outside Puerto Rico, outside the Virgin Islands, outside the United States.

Senator WEICKER. I would say to the Senator, in other words, Senator, if CBI is enacted, you representing that wonderful State of Nevada and Las Vegas will suffer along with Puerto Rico as far as conventions are concerned. I think that is what is being stated.

Secretary QUIROS. That is perfectly stated.

Senator WEICKER. You have common cause with this person.

Senator HECHT. That's the bottom line. One technical question—your sales of rum last year, how did they differentiate from say 2 years previous?

Secretary QUIROS. Sir, I am not an expert in rum from that point of view, and if you wouldn't mind I would like to submit for the record exactly what we have done in the rum industry in the past 5 years for the record, and I will do that this afternoon once I get back to the office.

Senator HECHT. Thank you.

Senator WEICKER. I thank you very much. There might be further questions to be submitted for response to the record, and I look forward to having our staffs work together in the next several days to see what it is that might be suggested on the floor either in regard to the rum situation or the tourism situation.

I gather tourism is going to be a little bit more difficult. This seems to be far broader in scope as to what is being recommended.

On the other hand, I am sure there are Senators, not just Senator Hecht, but I gather there are other colleagues that have already expressed similar concern as you have stated here this morning.

Thank you very much, and the hearing is adjourned.

[Whereupon, at 10:20 a.m., the hearing was adjourned.]

APPENDIXES

APPENDIX I

Responses From Mr. Claud Gingrich, General Counsel, Office of the United States Trade Representative

ANSWERS TO QUESTIONS FROM THE SENATE ENERGY COMMITTEE

1. THE FACT SHEET RELEASED AS PART OF THE EXPLANATION OF THE CBI STATED THE ADMINISTRATION'S COMMITMENT TO "EXPANSION OF AIRPORTS IN THE VIRGIN ISLANDS AND OTHER MEASURES TO ENCOURAGE THE DEVELOPMENT OF PUERTO RICO AND THE VIRGIN ISLANDS AS A TRANSPORTATION HUB FOR THE CARIBBEAN REGION."

A. WHAT IS THE CURRENT STATUS OF THE AIRPORTS ON ST. THOMAS AND ST. CROIX?

B. WHAT IS YOUR ESTIMATE OF THE DATE OF COMPLETION?

C. WHAT LEVELS OF FUNDING FOR THE AIRPORTS DID YOU REQUEST IN FY '83? FOR FY '84?

D. WHAT WILL BE THE TOTAL COST?

1. The renovation of the airport on St. Thomas is more than half completed with all landfill completed. The cost has been about $44 million so far, including $6.3 million provided by FAA from 1982 funds and partially expended. The additional cost of the improvements is estimated at about $33 million of which some $22 million to $25 million is eligible for 90% FAA financing. The remainder of the cost can be provided from Virgin Islands sources and from the Federal Government through the matching fund. For FY1983, the matching fund has provided $35 million for public works and other public purposes such as the purchase of the Harvlan property on St. Croix.

The St. Croix airport is fully adequate and in operation. A project has been proposed to lengthen the runway to 10,000 feet at a cost of $12 million over three years. Details on this project have not been provided nor has a budget request been made.

1E. SHOULD WE CONSIDER DEFERRING THE CONVENTION TAX EXTENSION UNTIL AIRPORTS ARE COMPLETED TO ENSURE THAT THE VIRGIN ISLANDS CAN COMPETE WITH THE BENEFICIARY COUNTRIES?

E. No. The Virgin Islands Airports are completed and in operation.

F. WHAT SPECIFICALLY ARE THE "OTHER MEASURES" REFERRED TO IN THE FACT SHEET?

F. Among the "Other Measures" for the Virgin Islands not originally detailed in the CBI fact sheet are:

-exemption of the V.I. rum industry from effluent treatment requirements

-support for a proposal already passed into law assuring the revival of the V.I. watch assembly industry.

-technical assistance to the V.I. in financial management and a natural resource survey.

1F. Please refer to the document attached below, titled "Contents of the CBI." This document was produced for reference by U.S. Government officials immediately prior to President Reagan's speech before the OAS on February 24, 1982. It contains a more complete list of measures to be taken on behalf of Puerto Rico and the Virgin Islands. The CBI Task Force is continuing to explore means of improving transportation linkages within the Caribbean Basin, with special attention to the needs of our Caribbean territories.

Document attached at end

G. I THINK WE CAN AGREE THAT AN ADEQUATE WATER AND POWER SYSTEM IS AN ESSENTIAL COMPONENT OF ANY DEVELOPMENT PLAN. THE VIRGIN ISLANDS HAS BEEN REQUESTING ASSISTANCE, NOW ESTIMATED AT $40 MILLION OVER FOUR YEARS, TO REHABILITATE ITS SYSTEMS. THE DEPARTMENT OF ENERGY IN JANUARY OF THIS YEAR IDENTIFIED ABOUT $40 MILLION IN REPAIRS IN THE VIRGIN ISLANDS WHICH WOULD BE RECOVERED IN SAVINGS THE FIRST YEAR. YET THE ADMINISTRATION HAS CONSISTENTLY OPPOSED ANY AUTHORIZATION OR APPROPRIATION FOR THIS PURPOSE. IN S. 544 THE ADMINISTRATION HAS PROPOSED TO TRANSFER ALL EXCISE TAXES ON FOREIGN IMPORTED RUM TO THE VIRGIN ISLANDS AND PUERTO RICO WITHOUT ANY FEDERAL OVERSIGHT. WHY DO YOU PREFER UNCERTAIN LEVELS OF UNSUPERVISED GRANTS DERIVED FROM ACTIVITIES OUTSIDE EITHER OF THESE TERRITORIES TO MEETING THE IMMEDIATE IDENTIFIED AND JUSTIFIED NEEDS?

G. The Virgin Islands has identified funding needs far in excess of the availability of federal funding for those needs. The proposed transfer of excise taxes on foreign imported rum is intended to safeguard existing revenues of the Virgin Islands matching fund, and to provide additional assistance that can be used for purposes such as water and power. Given the constraints on Federal grant funds, it is preferable to provide some assurance of continued revenues so that the Virgin Islands can develop according to its own priorities.

H. S.544 PROPOSES THE TRANSFER OF THE EXCISE TAXES ON FOREIGN IMPORTED RUM TO THE VIRGIN ISLANDS AND PUERTO RICO IN ORDER TO PROTECT THE LEVEL OF REVENUES PRESENTLY RECEIVED BY THESE AREAS FROM POTENTIAL HARM DUE TO THIS LEGISLATION'S LIFTING OF DUTIES. LAST CONGRESS, THE CHAIMAN OF THE COMMITTEE AND I SPONSORED LEGISLATION TO REIMBURSE THE VIRGIN ISLANDS AND GUAM FROM THE DIRECT REVENUE LOSS CAUSED BY THE TAX REDUCTIONS. THAT LEGISLATION WOULD HAVE PROVIDED THE TERRITORIES WITH A SINGLE YEAR BREATHER TO ADJUST THEIR BUDGETS TO THE FEDERALLY IMPOSED REVENUE REDUCTIONS AND YET THE ADMINISTRATION THREATENED TO VETO THE LEGISLATION. ARE YOU PREPARED TO RECONSIDER YOUR OPPOSITION TO THAT LEGISLATION AND IF NOT HOW DO YOU RECONCILE THAT OPPOSITION TO YOUR ADVOCACY OF THE TRANSFER OF EXCISE-TAXES ON FOREIGN RUM WHEN YOU MAINTAIN THERE WILL BE NO IMPACT?

H. The Administration remains opposed to Federal appropriations to offset territorial income tax shortfalls. Projected shortfalls did not in fact occur in the territories in FY '82. The transfer of excise taxes on foreign rum would provide revenue assurances that could be used for offset income tax shortfalls,if they should occur in the future.

2. THE FACT SHEET ALSO NOTED "FUNDING FOR AN EASTERN CARIBBEAN CENTER" IN THE VIRGIN ISLANDS. ALTHOUGH THE ADMINISTRATION SUPPORTED THE AUTHORIZATION OF $150,000 FOR INITIAL PLANNING, YOU NEVER SUBMITTED A BUDGET REQUEST AND CONGRESS WAS FORCED TO TAKE THE $150,000 FROM OTHER TECHNICAL ASSISTANCE TO THE TERRITORIES. DO YOU INTEND TO SUPPORT THE CENTER IN THE FUTURE AND WILL THAT SUPPORT APPEAR IN ADMINISTRATION BUDGET REQUESTS?

2. Funding for the Eastern Caribbean Center was provided from Interior Department technical assistance. This was requested as a form of seed money. Additional federal funding is neither sought nor is it being requested.

3. ACCORDING TO THE ANNUAL STATISTICAL REPORT OF THE NATIONAL ASSOCIATION OF BEVERAGE IMPORTERS, VIRTUALLY ALL RUM IMPORTERS HAVE WITHDRAWN FOR SALE ROUGHLY THE SAME AMOUNT OF RUM AS THEY HAVE BROUGHT INTO THE UNITED STATED AND ENTERED INTO WAREHOUSES EXCEPT FOR JAMAICA. IN 1978, JAMAICA WITHDREW ABOUT WHAT IT IMPORTED, BUT THEN BEGAN TO INCREASE ITS SHIPMENTS ALTHOUGH WITHDRAWALS REMAINED CONSTANT. IN 1982, ARRIVALS AMOUNTED TO 1.9 MILLION PROOF GALLONS WHILE WITHDRAWALS WERE ONLY 500,000 PROOF GALLONS. SINCE THE TARIFF DUTY IS IMPOSED ONLY WHEN THE RUM IS WITHDRAWN FOR SALE, IS JAMAICA STOCKPILING IN ANTICIPATION OF THE REMOVAL OF THE $1.57 TARIFF? AT THE PRESENT TIME JAMAICA HAS 3.4 MILLION GALLONS WAREHOUSED, ALMOST SEVEN YEARS SUPPLY BASED ON 1982 WITHDRAWALS. THAT AMOUNT ALSO EXCEEDS THE TOTAL ANNUAL PRODUCTION AND SHIPMENT OF BULK RUM FROM THE VIRGIN ISLANDS TO THE UNITED STATES.

A. WHAT IS TO PREVENT JAMAICA, ONCE THE DUTY IS LIFTED, FROM FLOODING THE MARKET OR UNDERCUTTING THE VIRGIN ISLANDS?

3A. The Administration is satisfied that the accumulation of rum in warehouses is the result of a decision to age Jamaican pot-still rum in the United States. Temperature and other factors make this strategy commercially attractive to rum distributors. Aging adds at least 25 percent to the ex-distillery cost of pot-still rum.

The United States has adequate remedies to protect against unfair trading practices, such as the dumping of merchandise at less-than-fair-value.

B. WOULD THE ADMINISTRATION CONSIDER AN AMENDMENT TO S. 544 WHICH WOULD LIFT THE DUTY ONLY ON RUM BROUGHT TO THE UNITED STATES AFTER THE DATE OF ENACTMENT OF THIS ACT?

3B. No. Such an amendment would be discriminatory and subject to legal challenge. Neither would it be good policy, nor would it be an effective safeguard against the potential problems which are alluded to.

C. THE MAJOR DISTILLER IN JAMAICA IS A CANADIAN FIRM SEAGRAMS. WHAT ACCESS DOES JAMAICA HAVE TO THE CANADIAN MARKET AND HOW DOES THAT COMPARE TO THE ACCESS OF THE VIRGIN ISLANDS?

3C. Jamaican rum has duty-free acess to the Canadian market under the Caribbean-Commonwealth arrangement. The Virgin Islands may ship rum to Canada at the preferential rate of $1.50 a gallon, under the Canadian general preferential tariff. A proposal currently before the Canadian parliament would lower this rate to zero.

D. WHAT HAS THE U.S. DONE TO ENCOURAGE CANADA TO TREAT PUERTO RICO AND THE VIRGIN ISLANDS AS BENEFICIARY COUNTRIES IN THE SAME MANNER AS IT TREATS JAMAICA SINCE CANADA IS A DONOR COUNTRY LIKE THE U.S.?

3D. The Virgin Islands has access to Canada and the European Community under their respective general preference schemes.

Puerto Rico is within the Customs Territory of the United States, and is therefore ineligible for preferential treatment. The same principle has been applied in excluding Martinique from CBI benefits, as a result of the latter's status as a part of metropolitan France.

E. WHAT ACCESS DOES JAMAICA HAVE TO THE EUROPEAN ECONOMIC COMMUNITY AND HOW DOES THAT COMPARE TO PUERTO RICO OR THE VIRGIN ISLANDS AND WHAT EFFORTS HAS THE ADMINISTRATION MADE TO OPEN THAT MARKET?

3E. Jamaica may ship rum into the European Community duty-free under the Lome Convention. Rum is not included under the European Community's general preference scheme, and the Virgin Islands is therefore subject to the most-favored-nation rate of duty. The U.S. Government has previously sought reduction of the EC duty rate on rum and other distilled spirits.

4. S. 544 INCLUDES INDUSTRIES IN THE TERRITORIES UNDER SECTION 105 (E) WHICH PERMITS THE PRESIDENT TO REIMPOSE DUTIES UPON A FINDING OF INJURY, OR THREAT THEREOF, FROM IMPORTS TO A DOMESTIC INDUSTRY, SECTION 104 (F) FOR PROTECTION UNDER THE TRADE ACT, AND SECTION 105 ON THE ECONOMIC REPORT ON THE IMPACT OF THIS LEGISLATION.

A. HOW DO YOU DEFINE INDUSTRY?

4A. See section 201(b)(3) and section 601(5) of the Trade Act of 1974.

B. IS THERE A DISTINCTION BETWEEN THE RUM INDUSTRY IN PUERTO RICO AND THE RUM INDUSTRY IN THE VIRGIN ISLANDS?

4B. S. 544 makes no distinction. If a section 201 petition is ever filed involving rum, this would be a matter for the USITC to determine.

C. IS THERE A DISTINCTION BETWEEN THE BULK RUM INDUSTRY AND THE BOTTLED RUM INDUSTRY?

4C. See response to question 4B.

D. IS THERE A DISTINCTION BETWEEN THE AGED BULK AND UNAGED BULK RUM INDUSTRIES?

4D. See response to question 4B.

E. WHAT CONSTITUTES THE THREAT OF INJURY AND WHAT REDUCTION IN CURRENT MARKET SHARE WOULD BE DEFINED AS INJURY?

4E. This depends on the industry and the results of the USITC investigation.

F. DOES THE LEGISLATION CONTEMPLATE A DIFFERENCE BETWEEN INJURY TO AN INDUSTRY AND IMPACT ON REVENUES TRANSFERRED TO A GIVEN INSULAR POSSESSION?

4F. No.

G. WHAT DO YOU MEAN BY ECONOMIC IMPACT IN SECTION 105?

4G. See section 105(B)(1) and (2) for details on what is to be included in the ITC's report.

H. SINCE THE FIRST REPORT ON ECONOMIC IMPACT IS NOT DUE UNTIL TWO YEARS AFTER THE ENACTMENT OF THE ACT, DOES THE ADMINISTRATION INTEND TO WITHHOLD ANY REMEDIAL OR RELIEF ACTION OTHERWISE CONTEMPLATED UNDER THIS ACT UNTIL SUCH A REPORT IS COMPLETED?

4H. No, since by law the President must act within 60 days in any case where the USITC makes a positive injury determination.

I. DOES THE PRESENCE OF ALMOST 3 1/2 MILLION PROOF GALLONS OF JAMAICAN RUM IN WAREHOUSES IN THE U.S. CONSTITUTE A THREAT TO THE VIRGIN ISLANDS? DOES THAT STOCKPILE CONCERN YOU? HOW QUICKLY COULD YOU ACT AND WOULD YOU TAKE ACTION?

4I. See response to question 3A above.

5. SECTION 104 (c) AND SECTION 201 MUST BE READ TOGETHER. SECTION 201 AMENDS THE EXISTING RUM FUND FOR THE VIRGIN ISLANDS TO PROVIDE THAT ALL EXCISE TAXES COLLECTED ON RUM IMPORTED INTO THE UNITED STATES SHALL BE COVERED INTO THE TREASURIES OF PUERTO RICO AND THE VIRGIN ISLANDS PURSUANT TO A FORMULA DEVELOPED BY THE SECRETARY OF THE TREASURY. THE PRESENT RUM FUND FOR THE VIRGIN ISLANDS WAS ORIGINALLY ENACTED AS SECTION 28(B) OF THE REVISED ORGANIC ACT OF THE VIRGIN ISLANDS AND WAS THEN ENACTED AS SECTION 7652 OF THE INTERNAL REVENUE CODE OF 1954. THE VIRGIN ISLAND RUM FUND PRESENTLY PROVIDES FOR THE COVERING OVER OF ALL EXCISE TAXES ON PRODUCTS MANUFACTURED IN THE VIRGIN ISLANDS INTO THE TREASURY OF THE VIRGIN ISLANDS TO BE OBLIGATED AS PROVIDED BY THE LEGISLATURE OF THE VIRGIN ISLANDS SUBJECT TO THE APPROVAL OF THE SECRETARY OF THE INTERIOR. ANY SUMS NOT OBLIGATED WITHIN A CURRENT FISCAL YEAR WILL REMAIN AVAILABLE FOR OBLIGATION ONLY FOR EMERGENCY PROJECTS AS APPROVED BY THE SECRETARY OF THE INTERIOR. THE PRESENT LIMITATIONS ON THE USE OF RUM FUND MONIES ARE NOT INCLUDED IN SECTION 201 NOR IS THERE ANY INDICATION IN THE LEGISLATION OF THE CRITERIA FOR THE SECRETARY OF THE TREASURY TO ALLOCATE THE TOTAL AMOUNT OF EXCISE TAXES BETWEEN PUERTO RICO AND THE VIRGIN ISLANDS.

SUBSECTION 104 (c) REFERS TO SECTION 201. SUBSECTION (c) PROVIDES THAT IF THE AMOUNT OF TAXES TRANSFERRED TO PUERTO RICO AND THE VIRGIN ISLANDS PURSUANT TO THE NEW SECTION SHOULD FALL BELOW THE AMOUNT WHICH WOULD HAVE BEEN TRANSFERRED HAD THE RUM BEEN PRODUCED IN PUERTO RICO AND THE VIRGIN ISLANDS THEN THE PRESIDENT SHALL CONSIDER COMPENSATION MEASURES AND MAY WITHDRAW DUTY FREE TREATMENT ON RUM.

A. ABSENT THE IMPOSITION OF A DISCRIMINATORY EXCISE TAX ON RUM, HOW COULD THE AMOUNT OF TAXES EVER BE DIFFERENT DEPENDING ON THE ORIGIN OF THE RUM PRODUCT?

5A. That is the only way.

B. ARE THERE PLANS TO REDUCE THE PRESENT EXCISE TAX FOR FOREIGN RUM?

5B. No.

C. WHAT IS THE PURPOSE OF 104 (c) IF DISCRIMINATORY TREATMENT IS NOT CONTEMPLATED?

5C. Section 104(c) could also be triggered if Congress reappealed section 201 of S. 544.

D. DOES 104 (c) RELATE TO PUERTO RICO AND THE VIRGIN ISLANDS AS SEPARATE ENTITIES AND IF SO HOW IS THE ALLOCATION OF REVENUES FROM IMPORTED RUM TO BE DIVIDED BETWEEN THE TWO TERRITORIES?

E. SINCE THE ADMINISTRATION IS COMMITTED TO DUTY FREE TREATMENT OF RUM, IS IT REALISTIC TO ASSUME THAT DUTY MIGHT BE REIMPOSED?

5E. At this time, we cannot say what the situation might be at the time that section 104(c) might be triggered.

F. DOES 104 (C) MEAN ANYTHING IF SECTION 201 IS NOT ENACTED OR LATER REPEALED? DOES THIS SECTION MEAN ANYTHING IF THE ADMINISTRATION DECIDED NOT TO REQUEST BUDGET AUTHORITY IN ANY YEAR FOR SUCH A TRANSFER OR CONGRESS DID NOT AGREE TO THE TRANSFER?

5F. No, Section 104 is irrelevant if Section 201 is not enacted or later repealed. Yes, if Congress does not agree to the transfer, Section 104 would be triggered.

G. WHAT IS THE PURPOSE OF SECTION 201?

5G. To provide revenue to Puerto Rico and the Virgin Islands, even if their rum sales decline.

H. WHAT LEVEL OF REVENUES IS CONTEMPLATED UNDER SECTION 201?

5H. Section 201 was developed without reference to the potential for expansion or contraction of the domestic market for rum, whether that rum is produced in the territories or imported. Presently, excise taxes collected on imported rum result in revenues of approximately $10 million annually.

I. WHAT IS THE BASIS FOR ALLOCATION BETWEEN PUERTO RICO AND THE VIRGIN ISLANDS OF THESE REVENUES?

5I. The intent of section 201 is to assure a predictable level of revenues to the territorial governments of Puerto Rico and the Virgin Islands. The formula for division of revenues will provide for an annual allocation which is consistent with the intent of the section and which returns to each territory revenues that the territory would have been predicted to collect had sales of imported rum remained at present levels relative to sales by the territories.

J. IS THERE ANY INDICATION OF NEED OR RELATIVE MARKET SHARE OR ANNUAL JUSTIFICATION IN THE ALLOCATION FORMULA?

5J. The formula will be sensitive to the domestic market share traditionally held by each territory and by foreign shippers of rum.

K. IS THERE ANY LIMITATION ON THE SECRETARY OF TREASURY REVISING THE ALLOCATION FORMULA FROM YEAR TO YEAR?

5K. No.

L. CAN THE SECRETARY OF THE TREASURY USE THE THREAT OF AN ALLOCATION CHANGE AS A MEANS TO COERCE TERRITORIAL SUPPORT FOR OTHER FEDERAL INITIATIVES SUCH AS REVISION OF THE CURRENT TAX TREATMENT UNDER THE MIRROR SYSTEM?

5L. The allocation formula should at all times be true to the intent of section 201. Either territory affected by the allocation could call upon the Administration or the Congress to review the formula and its effect on territorial revenues if it found the formula unfair.

L. The Secretary of the Treasury will not make any change in the allocation formula based on considerations other than rum market shares and rum excise tax shortfalls.

M. HOW DOES THIS PROVISION RELATE TO CURRENT PROPOSALS FROM THE DEPARTMENT OF THE TREASURY TO ELIMINATE THE MIRROR SYSTEM OF TAXATION IN THE TERRITORIES?

M. There is no relation whatever to any proposals or potential changes in territorial income taxation.

N. IF, AS THE ADMINISTRATION BELIEVES, ENACTMENT OF THIS LEGISLATION WILL HAVE NO EFFECT ON THE VIRGIN ISLANDS AND PUERTO RICAN RUM INDUSTRIES, WHY IS THIS PROVISION NECESSARY?

5N. The safeguarding of revenues was of particular concern to the territories, since, inter alia, predictability of the revenue stream is vitally necessary for the planning of governmental activities.

O. THE CURRENT RUM FUND FOR THE VIRGIN ISLANDS INCLUDES A PROVISION FOR FEDERAL OVERSIGHT BY THE SECRETARY OF THE INTERIOR. THAT OVERSIGHT IS NOT INCLUDED IN THIS PROVISION. WHY?

O. Oversight by the Secretary of the Interior was not considered necessary when the CBI bill was drafted, but would be supported by the Administration.

P. DOES THE ADMINISTRATION SUPPORT ELIMINATION OF THE PRESENT FEDERAL REVIEW OVER EXISTING RUM FUND TRANSFERS?

P. The Administration does not support elimination of the Federal Review of rum fund expenditures.

Q. WHAT IS THE ADMINISTRATION POSITION WITH RESPECT TO SECTION 5 (c) OF THE HOUSE INTERIOR COMMITTEE'S REPORTED AMENDMENT TO S. 589 WHICH WOULD REPEAL THAT REVIEW?

Q. We expect the Administration to oppose it.

R. THE ADMINISTRATION HAS OPPOSED THE APPROPRIATION OF FUNDS TO ELIMINATE THE CURRENT GENERAL FUND DEFICIT IN THE VIRGIN ISLANDS WHICH WOULD BE SUBJECT TO THE REQUIREMENT OF AN APPROVED DEFICIT ELIMINATION PLAN TO ENCOURAGE THE VIRGIN ISLANDS TO ACHIEVE A BALANCED BUDGET. ~~WHY IS THIS PROVISION~~ WHY IS THIS PROVISION FOR UNSTRUCTURED CASH GRANTS PREFERABLE TO ANNUAL APPROPRIATIONS ON THE BASIS OF IDENTIFIED NEEDS AND SUPPORTED BY FULL JUSTIFICATIONS? IF THE INTENT OF THIS PROVISION IS TO PROTECT THE EXISTING LEVEL OF REVENUES TO THE VIRGIN ISLANDS AND PUERTO RICO, HOW IS THIS TO BE ACCOMPLISHED AS THE SECTION IS PRESENTLY WORDED? IS THE PURPOSE OF FEDERAL APPROPRIATIONS TO THE TERRITORIES PROTECTION OF REVENUE LEVELS OR THE ACHIEVEMENT OF IDENTIFIED AND JUSTIFIED NEEDS?

R. The Administration opposes direct Federal funding of territorial budget deficits, considering that this is a territorial responsibility. Protection of existing revenues makes such funding possible and permits local decisions on priorities. This section is designed to protect and to increase revenue levels in the V.I. and Puerto Rico. Federal appropriations to territories can serve both purposes: protection of revenues and achievement of specific needs.

S. WHY SHOULD THE SECRETARY OF THE TREASURY MAKE THE ALLOCATION? WHAT ROLE WILL THE SECRETARY OF THE INTERIOR HAVE IN DETERMINING THE ALLOCATION?

5S. The Secretary of the Treasury is responsible for collection of the excise tax and for its disposition. The Secretary of the Interior, with responsibility for the Virgin Islands, will advise Treasury in determining the allocation.

T. IS SECTION 201 INTENDED TO BE OPEN ENDED IN THAT THE ADMINISTRATION PROPOSES TO TRANSFER THE TOTAL AMOUNT OF REVENUES COLLECTED BY EXCISE TAXES ON FOREIGN RUM TO PUERTO RICO AND THE VIRGIN ISLANDS NOT WITHSTANDING THE AMOUNT OF SUCH REVENUES?

5T. Yes.

U. IS THERE A POINT AT WHICH THE REVENUES MIGHT REACH A LEVEL AT WHICH THE ADMINISTRATION WOULD PROPOSE LIMITING THE AMOUNT OF TRANSFER? IF SO WHAT IS THAT LEVEL?

5U. Any Administration would have to consider limiting the amount of transfer under section 201 if the amounts covered over into the treasuries of Puerto Rico and the Virgin Islands from sales of rum produced in the territories were limited for any reason.

V. IF, AS A RESULT OF NORMAL MARKET ACTIVITY, THE RUM INDUSTRY IN EITHER THE VIRGIN ISLANDS OR PUERTO RICO SHOULD CEASE TO FUNCTION, WOULD REVENUES STILL BE TRANSFERRED UNDER THIS SECTION? WHY?

5V. Yes. The legislation does not contemplate nor address a situation as described, but rather is intended to safeguard certain revenues, without regard to the level of rum production in the territories.

W. IF THE ADMINISTRATION IS WILLING TO GUARANTEE, AND IN FACT INCREASE, THE INDIRECT TRANSFER OF FUNDS TO PUERTO RICO AND THE VIRGIN ISLANDS TO COVER THE POTENTIAL IMPACT ON AN ENTIRE INDUSTRY, IS IT PREPARED TO RECONSIDER ITS POSITION WITH RESPECT TO THE TRANSFER OF TAXES ON PETROLEUM PRODUCTS MANUFACTURED IN PUERTO RICO AND THE VIRGIN ISLANDS? WHY IS IT PREFERABLE TO TRANSFER EXCISE TAXES ON PRODUCTS MANUFACTURED OUTSIDE OF PUERTO RICO AND THE VIRGIN ISLANDS TO THESE GOVERNMENTS FOR UNSPECIFIED PURPOSES RATHER THAN INCLUDING THE TAXES ON PRODUCTS SUCH AS PETROLEUM DERIVATIVES MANUFACTURED DIRECTLY IN THESE TERRITORIES? HOW DOES THIS SECTION 201 ENCOURAGE THE DEVELOPMENT OF INDUSTRY AND EMPLOYMENT IN PUERTO RICO AND THE VIRGIN ISLANDS?

W. The Administration is not prepared to reconsider its opposition to the transfer of excise taxes on petroleum products refined in Puerto Rico and the Virgin Islands. Section 201 is designed to provide assurances of revenue maintenance under the CBI. There are no provisions affecting petroleum imports, the petroleum industry, or revenues associated with petroleum in the CBI. Section 201 will provide revenues to Puerto Rico and the Virgin Islands which can be used to maintain and develop industry and employment.

Section 102 (d): This subsection amends headnote 3(a) to provide that articles imported from "insular possessions" shall receive duty treatment no less favorable than that afforded beneficiary countries under CBI. The reference of insular possession is to the tariff schedules which notes the Virgin Islands, Guam, and American Samoa. Puerto Rico is within the U.S. customs territory.

1. What is the definition of "insular possession?"

"Insular possession" means all islands not part of any state, over which the United States asserts sovereignty. For purposes of the bill, the meaning would include only the populated United States territories of the Virgin Islands, Guam and American Samoa.

Does the phrase include the Commonwealth of the Northern Mariana Islands prior to termination of the trusteeship agreement? The Marianas is not a possession at this time.

As stated, the Northern Marianas is not a possession at this time. It is provided with the benefits of the proposed trade legislation by virtue of Section 603(c) of the Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America (P.L. 94-241).

3. Does the phrase include the Commonwealth of the Northern Mariana Islands post-Trusteeship?

Yes.

4. Does the phrase include Palau, the Federated States of Micronesia, and the Marshall Islands prior to termination of the Trusteeship?

No.

5. Will Palau, the Federated States of Micronesia, and the Marshall Islands be included post-Trusteeship under the provisions of the Compact of Free-Association as presently drafted?

The Compact of Free Association as drafted at present would provide products of Palau, the Federated States of Micronesia, and the Marshall Islands access to the United States on the same terms as products of insular possessions.

6. If any of these areas are not included either at the present time or subsequent to ratification of the Compact of Free Association, should they be included?

No additional areas should be included.

Section 103 (a). In part this subsection provides that for the purposes of computing the value added necessary for products from a beneficiary country to be imported duty free, Puerto Rico and the Virgin Islands will be considered to be beneficiary countries. It also provides that the cost or value of materials produced within the customs territory of the United States, excluding Puerto Rico, will count up to 15% towards the cost of the product for the purposes of duty free treatment.

1. Why is the provision limited to Puerto Rico and the Virgin Islands excluding other U.S. territories for the ourposes of full computation?

1. The rules-of-origin are meant to promote the addition of value in the beneficiary countries. Because the Administration desires to foster economic interaction betweer Puerto Rico, the Virgin Islands and the Caribbean Basin beneficiaries it has adopted a rule which should provide an incentive for joint production. The Administration's intent would not be served by including the non-Caribbean territories under the rule as it applies to Puerto Rico and the Virgin Islands.

2. Assuming that it is reasonable to restrict full computation to U.S. Caribbean territories, why are the Pacific territories excluded from the definition of United States for the purposes of the 15% value added provision?

2. The Administration would not oppose inclusion of the Pacific territories for the purpose of defining "domestic content."

Section 103 (e). This section provides the trigger mechanism for the President to re-impose duties upon a finding of a serious injury, or threat thereof, caused by imports to the domestic industry.

1. What is the definition of industry?

2. Is there a distinction between the bulk rum industry and the bottled rum industry for the purposes of this section?

3. Is there a distinction between aged bulk rum and unaged bulk rum?

Section 103(e)

For 1, 2, and 3 see earlier answer.

4. Is there a distinction between the Virgin Islands rum industry and the Puerto Rican rum industry? There have been reports of significant increases in warehousing of unaged bulk rum by beneficiary countries over the last two years in excess of their normal drawdown. Since the import duty does not apply until rum is withdrawn from warehousing for sale, does such a stockpiling give rise to a presumption of dumping on the domestic market once the duty is lifted? Does such a stockpiling of bulk rum constitute a threat within the meaning of this section for the purposes of the Virgin Islands bulk rum industry?

4. No. Stockpiling alone is not sufficient.

Section 104, Measures for Puerto Rico and United States Insular Possessions. Subsection (a) of section 104 amends general headnote 3(a) to increase the foreign component of the value of goods from the insular possessions from 50% to 70% to remain eligible for duty free treatment.

1. How is the figure of 70% arrived at?

   The figure of 70% was used in proposed legislation introduced on three occasions in the House of Representatives by territorial representatives, most recently as H.R. 2232 of March 2, 1981. The justification, in simplified form, is that export industries in the territories are becoming less competitive due to increased foreign competition and lowered duties.

2. Is there any reason why 75% or 65% or some other figure could have been used?

   Similar benefits probably could have been obtained with a figure of 75% or 65%.

3. What is the anticipated benefit to the insular possessions of this provision? Would a different percentage provision be of greater benefit to the insular possessions?

   This provision is designed to permit existing assembly industries exporting to the United States to stay in business and to encourage new industries to locate in U.S. territories in competition with the enhanced access to the U.S. provided Caribbean countries by the CBI. A significantly lower figure would not have provided any additional incentive for businesses above the present 50% foreign content limitation. A much higher figure would be too little incentive for eligible industries to provide employment in the territories.

Subsection (b) increases the amount of liquor which may enter the United States duty free from the territories from four litres to five litres provided that not more than four litres is produced elsewhere than in the territories.

1. Why is the amount increased by only one litre?

   The addition of one liter to the liquor allowance should provide for additional sales and promotion of Virgin Islands rum. Most tourists in the Virgin Islands purchase liquor in cartons holding six bottles of 750 ml. each. Current law permits only five such bottles to be imported tax and duty free. The extra liter will permit the empty compartment to be used. An increase of any more than one liter would be unecessary for this purpose.

2. Does the additional litre have to be produced in the particular territory from which a person is entering the United States or could it be produced in other territories? (Could a person entering the U.S. from Guam bring in a litre of Virgin Island rum?)

   The additional liter need not be produced in the territory from which a person is entering the United States. A person entering from Guam would be permitted to bring the extra liter of Virgin Islands rum.

Subsection (c) refers to a new provision added to the rum fund by section 201 of this legislation which would transfer to Puerto and the Virgin Islands the excise taxes collected on rum imports. Subsection (c) provides that if the amount of taxes transferred to Puerto Rico and the Virgin Islands pursuant to the new section should fall below the amount which would have been transferred had the rum been produced in Puerto Rico and the Virgin Islands then the President shall consider compensation measures and may withdraw duty free treatment on rum.

A. ABSENT THE IMPOSITION OF A DISCRIMINATORY EXCISE TAX ON RUM, HOW COULD THE AMOUNT OF TAXES EVER BE DIFFERENT DEPENDING ON THE ORIGIN OF THE RUM PRODUCT?

5A. That is the only way.

B. ARE THERE PLANS TO REDUCE THE PRESENT EXCISE TAX FOR FOREIGN RUM?

5B. No.

C. WHAT IS THE PURPOSE OF 104 (c) IF DISCRIMINATORY TREATMENT IS NOT CONTEMPLATED?

5C. Section 104(c) could also be triggered if Congress reappealed section 201 of S. 544.

D. DOES 104 (c) RELATE TO PUERTO RICO AND THE VIRGIN ISLANDS AS SEPARATE ENTITIES AND IF SO HOW IS THE ALLOCATION OF REVENUES FROM IMPORTED RUM TO BE DIVIDED BETWEEN THE TWO TERRITORIES?

E. SINCE THE ADMINISTRATION IS COMMITTED TO DUTY FREE TREATMENT OF RUM, IS IT REALISTIC TO ASSUME THAT DUTY MIGHT BE REIMPOSED?

5E. At this time, we cannot say what the situation might be at the time that section 104(c) might be triggered.

F. DOES 104 (c) MEAN ANYTHING IF SECTION 201 IS NOT ENACTED OR LATER REPEALED? DOES THIS SECTION MEAN ANYTHING IF THE ADMINISTRATION DECIDED NOT TO REQUEST BUDGET AUTHORITY IN ANY YEAR FOR SUCH A TRANSFER OR CONGRESS DID NOT AGREE TO THE TRANSFER?

5F. No, Section 104 is irrelevant if Section 201 is not enacted or later repealed. Yes, if Congress does not agree to the transfer, Section 104 would be triggered.

Subsection (d) repeals section 1112 of the Trade Agreements Act of 1979. Section 1112 was designed to protect the rum industries from any effects of the Tokyo Round.

Subsection (d), questions 1-3. Section 104(d) repeals section 1112 of the Trade Agreements Act of 1979, since this provision is no longer necessary in view of the provision in section 201 of this bill for rebate of all excise taxes on imported rum to Puerto Rico and the Virgin Islands and the requirement in section 104(c) that the President consider compensation if such revenues decline.. Section 1112 authorizes the President to recommend budget appropriations for payment to Puerto Rico and the Virgin Islands if their revenues from excise taxes are reduced as a result of concessions granted during the Tokyo Round of Multilateral Trade Negotiations. This provision has never been invoked.

Subsection (e) provides that nothing in this title will affect the duty which Puerto Rico imposes on coffee imported into Puerto Rico.

1. Why is this provision necessary?

2. Does anything in this Act affect the ability of the Virgin Islands to impose or alter its tax on imported goods?

   No.

3. Is there anything in this title which would affect other provisions of law relating to any territory's ability to control imports?

   No.

Subsection (f) defines the term industry under the Trade Act to include producers located in the United States insular possessions. This provision relates back to the triggering mechanism for remedial action in the event of threat or injury to a U.S. industry.

1. How specific is the term industry?

1. See answer to question (4)(A) above.

2. Are producers in the territories distinct from similar producers within the several states?

2. It depends on the findings of USITC in a specific import relief case.

3. Is there a distinction between bulk rum producers and bottled rum producers?

3. See answer to question (4)(B) above.

4. Is there a distinction between Virgin Islands rum producers and Puerto Rican rum producers?

4. See earlier answer to question (4)(B) above.

5. What constitutes a threat of injury and what reduction in current market share would be defined as injury?

5. It depends on findings of the USITC in a specific import relief case.

6. Does the legislation contemplate a difference between injury to an industry and impact on revenues transferred to a given insular possession?

6. The legislation does not link these concepts.

Subsection (g) exempts the Virgin Islands rum industry from discharge requirements under the Water Pollution Control Act.

1. Is this provision dependent upon enactment of the Caribbean Basin Initiative?

   Yes.

2. Is this provision justified on its own merits?

   The Administration believes that this provision is well justified within the context of the Caribbean Basin Initiative.

3. Is the Virgin Islands rum industry unique in the application of the Water Pollution Control Act or are there similar industries or other industries in a similar situation in the insular possessions which should also be exempted from provisions of the Water Pollution Control Act?

   The Virgin Islands rum industry is unique with respect to the application of the Water Pollution Control Act.

4. What is the Administration's position with respect to the application of the Water Pollution Control Act in the territories?

   The Administration supports the general application of the Water Pollution Control Act to the territories.

5. What is the current Administration position with respect to the application of the Clean Air Act in the Territories?

   The Administration supports the general application of the Clean Air Act to the territories.

6. What is the current Administration position with respect to the requirement that the Guam Power Authority install a system of scrubbers to comply with provisions of the Clean Air Act?

   In answering questions of your committee in 1982 hearings on territorial legislation, this Administration provided your committee with legislative language that would allow the Administrator of the Environmental Protection Agency to exempt individual territories from specific provisions of the Clean Air Act. Such an amendment would remove the requirement that the Guam Power Authority install a system of scrubbers, provided the Government of Guam continues to request the removal of such a requirement. Until the Clean Air Act is amended, the Guam Power Authority will remain subject to its provisions.

7. Why is this provision included in this bill rather than as a part of amendments to the Clean Water Act?

The provision is necessary to permit Virgin Islands rum to compete with other Caribbean rum, and therefore is justified in the context of the CBI.

8. Assuming that timing of relief is important and that this exemption is necessary at the same time as the enactment of authority to lift the duty on rum, does the same argument hold for the completion of the airports in the Virgin Islands and the extension of the convention tax status? Should the designation of beneficiary countries as "North American convention" be conditioned on completion of the Virgin Islands airports to maintain the Virgin Islands tourist industry?

There are similarities and differences in the two situations. The designation of countries to benefit from convention tax treatment should not be conditioned on improvements to existing Virgin Islands airports. Such designation would be a gradual process conditioned on other factors.

Section 105. Subsection (a) includes industries in the U.S. territories within the definition of U.S. industries for the purposes of a report regarding the economic impact of this act. In addition to the same questions on the definition of industry as were raised earlier,

1. Since the first report on the economic impact will not occur until two years after the enactment of the Act, does the Administration intend to withhold any remedial or relief action otherwise contemplated under this Act until such a report is completed?

1. Section 201 of the Trade Act of 1974 is not related to the section 105 study.

2. What is meant by the term economic impact?

2. Each ITC report will include an assessment of the actual effects, during the period covered by such report, of the Act's provisions on the U.S. economy generally as well as those specific industries producing articles like or directly competitive with Caribbean Basin imports. It will also include an assessment of the probable future effects. Subsection (b) sets forth various factors the Commission should, to the extent practicable, consider in its analysis. These factors are the same as those listed in section 131 of the Trade Act of 1974, and include such matters as domestic production, trade, consumption, profit levels, employment, prices, wages, capital investment, and use of productive

Section 201 Payment of Excise Taxes Collected on Rum to Puerto Rico and the United States Virgin Islands. This Section amends the existing rum fund to provide that all excise taxes collected on rum imported into the United States shall be covered into the treasuries of Puerto Rico and the Virgin Islands pursuant to a formula developed by the Secretary of the Treasury. The present rum fund for the Virgin Islands was orginally enacted as Section 28 (b) of the Revised Organic Act of the Virgin Islands and was then enacted as Section 7652 of the Internal Revenue Code of 1954. The Virgin Island rum fund presently provides for the covering over of all excise taxes on products manufactured in the Virgin Islands into the treasury of the Virgin Islands to be obligated as provided by the legislature of the Virgin Islands subject to the approval of the Secretary of the Interior. Any sums not obligated within a current fiscal year will remain available for obligation only for emergency projects as approved by the Secretary of the Interior. The present limitations on the use of rum fund monies are not included in Section 201 nor is there any indication in the legislation of the criteria for the Secretary of the Treasury to allocate the total amount of excise taxes between Puerto Rico and the Virgin Islands.

1. Does the Administration agree that the rum industry of the U.S. Virgin Islands, being highly concentrated in the sale of unaged, bulk rum, is much more vulnerable to low price foreign competition and to the immediate loss of its domestic markets than are the distillers of Puerto Rico?

1. No. Foreign distillers are producing pot-still rum for aging, and are more directly in competition with higher priced, name-brand rum from Puerto Rico.

2. If not, what factors support the Administration's views? If so, what particular provisions has the Administration built into the CBI to protect the Virgin Islands rum industry from injury by foreign competition?

2. The CBI contains safeguards which permit the President to restore the duty on rum to its present level if the USITC finds that imports from the CBI beneficiaries are the cause of serious injury to rum producers in the United States, including the Virgin Islands.

3. In formulating the Caribbean Basin Initiative, and in considering what protective measures might be appropriate for the benefit of the rum industries in Puerto Rico and the U.S. Virgin Islands, what, if any, independent market studies did the Administration undertake to assess the respective impacts of increased foreign price competition on those domestic industries?

3. The Administration relied upon information supplied by Puerto Rico, the Virgin Islands, and the West Indies Rum and Spirits Producer's Association. Advice was also sought from experts at the Bureau of Alcohol Tobacco and Firearms, and the USITC.

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4. Title II of the 1974 Trade Act permits relief when an entire industry is injured or threatened with injury by foreign competition. How would the Administration's bill permit a severely injured Virgin Islands rum producer to seek reimposition of the tariff on non-U.S. Caribbean rum if the Puerto Rican rum producers, or even if only Bacardi (which alone constitutes some 60% of the domestic rum industry), were relatively unscathed by foreign competition? That is, what mechanism is provided for a rum producer whose market is concentrated in the vulnerable, price-sensitive unaged bulk rum segment to obtain protection against serious, but localized injury at the hands of foreign competition?

4. Section 201 does not prohibit relief in a situation such as you described since the USITC would conceivably find that different industries were involved.

5. Does Section 104(5) of the Administration's bill mean that a manufacturer located in the Virgin Islands could obtain relief under Title II of the Trade Act of 1974 even if it produced only some 10% of all U.S. goods produced in its particular industry? If so, could that manufacturer obtain relief alone or would other manufacturers have to join in its petition?

5. Section 201 determinations on injury and appropriate relief are provided by industry, not by manufacturer, but relief can be granted to an industry even if only a single manufacturer files a petition.

6. How many petitions have been initiated before the ITC for relief under the mechanism relied upon by §103(c) of the Administration's bill (i.e., chapter 1 of Title II of the 1974 Trade Act)? How many have resulted in substantive relief after Presidential review? Of those that did result in relief, what period of time elapsed between the filing of the petition and the implementation (i.e., effective date) of a tariff increase to protect the domestic industry? Of those that resulted in relief, how much did it cost the petitioners' in attorneys fees, expert witness fees, economic and market studies, etc.?

6. 48 201 petitions; 15 granted; 3 OMAs; Case 5 (stainless steel) - 8 months; Case 6 (slide fasteners) - 8 months; Case 7 (footwear) - 7 months; Case 8 (Flatware) - 8 months; Case 10 (mushrooms) - 8 months; Case 12 (shrimp) - 7 1/2 months; Case 18 (footwear) - 9 months; Case 19 (TVs) - 9 months; Case 29 (CBs) - 8 months; Case 35 (high-carbon ferrochronium) - 4 1/2 months; Case 36 (clothespins) - 6 1/2 months; Case 37 (bolts, nuts and large screws) - 6 1/2 months; Case 39 (non-electric cookware) - 8 months; Case 43 (mushrooms) - 7 months; Case 47 (motorcycles) - 7 months.

7. Even if the ITC agrees that reimposition of a tariff is necessary to protect a domestic industry, wouldn't §103(c) of the Administration's bill make such reimposition solely a matter of discretion with the President?

7. Section 201 provides that relief is discretionary with the President, subject to Congressional override. Section 103(e) of S. 544 does not change that.

8. What environmental requirements are imposed by Jamaica, Barbados, Haiti and other major Caribbean rum producing countries on the discharge of distillery wastes into the ocean? If there are statutory requirements, are they being enforced?

8. We are seeking full information on foreign environmental requirements from our Embassies in the Caribbean Basin. We do know that Barbados requires effluents to be dispersed offshore, rather than on land or directly into the sea along the coast. Jamaica has no national standards, but at least one distillery is voluntarily experimenting with pollution controls and techniques recommended by the Bacardi Company.

9. Isn't it true that U.S. environmental laws place rum distillers in the U.S. Virgin Islands at a considerable cost disadvantage vis-a-vis foreign Caribbean competitors?

9. The increase in fixed costs resulting from installation and start-up of environmental control equipment at the distillery in the Virgin Islands should not result in a loss of price competitiveness for Virgin Islands rum (ex-distillery, prior to application of duties).

10. What percentage of the rum production of Caribbean Basin beneficiary countries is presently exported to the U.S.? Where is the remainder marketed?

10. We have limited data on Caribbean shipments of rum worldwide. In 1980, the largest Caribbean producers (Jamaica, Barbados, and Trinidad) shipped 0.9 million proof gallons to the U.S.; 1.4 million proof gallons to the U.K.; 0.5 million proof gallons to Canada; and 1.1 million proof gallons to third countries.

11. How much unused rum production capacity is there in CBI countries?

11. In Jamaica and Barbados in 1980, the principal distilleries were operating at around 40 percent of their 14.2 million proof gallon capacity.

12. Is it not quite likely that major Puerto Rican producers such as Bacardi and Seagram, each of whom has plants or affiliates in CBI beneficiary countries (Bacardi in the Bahamas, Seagram in Jamaica (Myers' Rum)) will respond to removal of the tariff on rum by shifting production out of Puerto Rico? What provision, if any, has the Administration made to stop such conduct?

12. An efficient use of distillery capacity by firms like Bacardi and Seagrams would dictate against shifting of production. For example, in launching a white and amber line for Myers, Seagrams has chosen to produce these lines in Puerto Rico, despite the availability of distilling capacity in Jamaica.

13. Would quantities of rum from a CBI beneficiary country which had arrived in the U.S. in bond prior to a tariff elimination, but which had not yet paid the current tariff, be subject to a tariff if removed from bond only after the tariff was eliminated? Is the Administration aware of large quantities of Jamaican rum stored in bond in the U.S. on which no tariff has yet been paid? What is the explanation for the build-up of such inventories?

13. See answers to questions (3)(A) and (3)(B) above.

14. Why should the U.S. grant duty-free access for foreign Caribbean rums to the U.S. market when such rums already enjoy significant tariff advantages in the EEC, Canada, and elsewhere over U.S. Virgin Islands and Puerto Rican rums?

14. The objective of revitalizing economic activity in the Caribbean Basin is of vital importance at this time. Reduction of U.S. duties on Caribbean goods, especially those duties inhibiting Caribbean production, is critical to achieving our national objectives in the region.

15. Why shouldn't the elimination of rum duties in the U.S. be held in abeyance until rum producers in the U.S. Virgin Islands and Puerto Rico can export rum to the EEC with a tariff rate as favorable as those accorded Caribbean nations? Specifically, for example, why should rum from the British Virgin Islands, a U.K. possession, enter the U.S. duty-free when rum from the U.S. Virgin Islands cannot enter the U.K. on terms equally favorable?

15. The Administration will pursue the elimination of trade barriers to U.S.-produced rum on a continuing basis. However, our national interest requires that the CBI be implemented as soon as possible, with full elimination of the duty on rum.

16. Where other developed countries have granted special trade preferences for non-U.S. Caribbean rums, shouldn't the U.S. require equal treatment for rums made in Puerto Rico and the U.S. Virgin Islands before abolishing our tariff barriers on foreign Caribbean rums? If we fail to do so, doesn't that put U.S. producers at a significant competitive disadvantage in terms of potential market penetration both in the U.S. and abroad?

16. No. Puerto Rico and the Virgin Islands have free and unencumbered access to the largest rum market in the world. The largest Puerto Rican producer also sells more rum in Europe (shipped from distilleries in Caribbean nations) than any other producer.

17. If, as has been predicted, sales of U.S. Virgin Islands rum are more drastically affected by CBI foreign competition, in percentage terms, than those of Puerto Rican rum, what sort of formula will the Secretary of the Treasury adopt to protect the U.S. Virgin Islands' revenues from being disproportionately reduced as a result? Will the formula take into account the proportionate loss of pre-CBI market share?

17. See the answer provided to question (5)(I) above.

18. If U.S. Virgin Islands treasury revenues from excise taxes on rum fall below pre-CBI levels despite the operation of §201 of the bill (e.g., the excise taxes covered over to the Virgin Islands treasury fail to make up for the lost U.S. sales), can the Virgin Islands invoke §104(c) of the bill even though Puerto Rico could not? Isn't relief under §104(c) of the bill entirely discretionary with the President in any event?

18. No. The Administration would not discriminate against either territory in implementation of section 104 or 201 of the CBERA. Compensatory measures are discretionary with the President under section 104.

February 24, 1982

CONTENTS OF THE CARIBBEAN BASIN INITIATIVE

The Trade Policy Committee and its Caribbean working group have reached agreement on an action program for the Caribbean consisting of seven principal government initiatives. These initiatives are designed to mobilize, on a long-term basis, private sector resources to assure economic development in this region. In summary these initiatives are:

1. MEASURES TO LIBERALIZE TRADE.

A. FREE TRADE ARRANGEMENT.

We will seek legislative authority to grant beneficiaries in the Caribbean Basin across-the-board, duty-free treatment for 12 years under a program distinct from the Generalized System of Preferences. All products will receive duty-free access with the exception of textiles and apparel subject to textile agreements.

There will be safeguards available to modify duty-free access for the beneficiaries of the free trade arrangement when imports cause or threaten to cause serious injury to a U.S. domestic industry and its workers. Affected U.S. domestic interests (or the Government) may petition to have a safeguard review undertaken. Petitioners seeking relief would utilize the system provided for under Sections 201-203 of the Trade Act of 1974. In the course of investigations under 201-203, the USITC would consider whether serious injury or the threat of serious injury results from imports entering under the free trade arrangement.

Where safeguard relief is sought on perishable commodities, the CBI legislation will give the President authority, upon the recommendation of the Secretary of Agriculture, to restore the MFN duty immediately, if warranted, pending the completion of the 201-203 process.

The rules-of-origin under the free trade arrangement are an important factor in determining the accessibility of duty-free access for Basin countries, many of which are resource poor. We will retain the rules from GSP, except the requirement of a minimum percentage of local value-added will be reduced from 35 to 25 percent. Inputs from Puerto Rico and the U.S. Virgin Islands will be treated as Caribbean Basin products for purposes of the rules-of-origin.

The President will have discretion to designate countries in the Caribbean Basin for the free trade arrangement subject to many of the same caveats as in the GSP system (non-designation of Communist countries; of countries which expropriate without

compensation; or of countries which grant preferences to developed countries.) The President will take into account economic criteria such as the attitude of the beneficiaries towards private enterprise and the policies that the countries are pursuing to promote their own development. This might include progress in the beneficiary country toward reasonable work-place conditions and providing workers with the right to associate freely and bargain collectively. The United States Government will enter into discussions with the Caribbean Basin countries on their self-help objectives.

There will be no further qualifications on the granting of duty free access except with respect to the treatment of sugar. Basin countries not receiving GSP on sugar (currently the Dominican Republic, Guatemala and Panama) will be subject to duty-free absolute quotas. Other beneficiaries will continue to receive GSP-type duty-free treatment. The Secretary of Agriculture can establish duty-free absolute quotas for those countries wishing to forego GSP treatment. The Secretary of Agriculture will retain the right to adjust these limitations, taking into account the need to protect the price support program and market conditions. CBI country beneficiaries will continue to pay Section 22 fees on sugar. This special regime will automatically terminate when the current domestic sugar support program terminates. Sugar would then be treated as all other products under the FTA.

The free trade arrangement will require the United States to seek a waiver of its MFN obligations under the General Agreement on Tariffs and Trade.

B. OTHER TRADE MEASURES ARE:

Textiles and Apparel - The Trade Policy Committee, with a view to future administration of our textile program, has approved the concept of more favorable treatment for Caribbean Basin textile exports in the context of bilateral and multilateral arrangements governing international trade in textiles.

Meat Act - If the quota provision of the Meat Act is triggered, we will consider treating Basin countries in meat allocation and shortfall provisions as favorably as possible.

2. MEASURES TO ENCOURAGE INVESTMENT, PARTICULARLY THROUGH TAX INCENTIVES AND BILATERAL INVESTMENT TREATIES.

We will seek Congressional authorization to grant a significant tax incentive for U.S. investors in the Caribbean Basin.

B

We are still consulting with the Congress on the exact incentive. An example of a possible incentive is a pass through tax credit of up to 10 percent of the amount of fixed-asset investment in the countries of the region. Such a system would operate in much the same fashion as does the tax credit for investment currently in effect in the United States. The incentive would be granted for a five year period to individual countries which enter into executive agreements for tax administration purposes. After the five year period, further extension of the credit could be achieved through a tax treaty. The credit would permit U.S. businesses to reduce their net tax liability in the United States.

We will continue to seek to negotiate double taxation treaties with interested Caribbean Basin countries. A principal request of the Caribbean Basin countries has been to include convention tax exemptions in double taxation treaties. Any negotiation of such exemption will involve close Congressional consultation.

To further reduce investment risks, we are offering to negotiate bilateral investment treaties with the nations of the region. The first such negotiation is underway with Panama.

We will also work with the Multilateral Development Banks and with the private sector to develop an insurance facility to supplement OPIC's noncommercial investment risks operation in the area.

3. MEASURES TO EXPAND CREDIT TO THE PRIVATE SECTOR.

The private sectors in many Caribbean Basin countries face increased difficulty in obtaining short-term credit to finance normal foreign trade operations. To relieve this credit squeeze, the Export-Import Bank will extend guarantees for short-term credit as between U.S. banks and exporters and local commercial banks in the creditworthy countries of the Caribbean Basin region.

4. INCREASED BILATERAL ASSISTANCE IN FY 1982 THROUGH A SUPPLEMENTAL APPROPRIATION TO PROVIDE EMERGENCY ASSISTANCE WITH ECONOMIC SUPPORT FUNDS (SEE ATTACHED TABLE).

The Administration will seek $350 million in supplemental Economic Support Funds for emergency assistance under the Foreign Assistance Act, to certain of the Caribbean Basin countries. Country planning figures for this $350 million supplemental will include increases to El Salvador, Costa Rica and Jamaica. Other likely recipients are countries such as Honduras, the Dominican Republic, Belize and the Eastern Caribbean.

Precipitous economic deterioration, paralleled in several countries by severe political turmoil, has plunged several Basin countries into crisis. Significant interim financing is necessary to facilitate reforms and meet the financial emergency.

The program vehicles which would be used to channel these funds to each country, together with the policy conditions expected to be met, are being developed.

Generally, the ESF assistance will be made available through the banking system. It will be available in some part to finance essential imports of raw materials, intermediate goods, and spare parts for private sector firms. Typically the local currency counterpart generated by the foreign exchange will be used to create revolving credit lines to the private sector for working capital and other local cost needs.

5. A $250 MILLION INCREASE IN ASSISTANCE IN FY 1983 OVER FY 1981 LEVELS (SEE ATTACHED TABLE).

For the next three or four years, the major concern within the Caribbean Basin program must be to assist the Caribbean Basin countries in correcting their external economic disequilibria through sound stabilization and reform programs. At the same time, resources must be channeled into activities that quickly revive agricultural and industrial production and create employment. New projects in basic social services will receive less emphasis in the short-term, although this area will continue to receive attention from the AID pipeline and from selected new development activities.

In the later phase of the Caribbean Basin Initiative, the focus will shift toward longer-term development problems. There will be less need to focus on stabilization, although some stabilization assistance may still be needed in some countries.

The request for increased aid would include funds for the American Institute for Free Labor Development (AIFLD) which, under AID contract, trains Latin American and Caribbean workers in the principals of trade unionism. Organized labor in the U.S. believes, with justification, that free trade unions can help build democratic and pluralistic traditions in countries without such traditions.

6. MEASURES TO STRENGTHEN THE PRIVATE SECTOR'S ABILITY TO EXPLOIT CBI-CREATED OPPORTUNITIES.

We are designing private sector development strategies for each country which combine the resources of private, public

and voluntary organizations in imaginative new programs. Currently, several interagency task forces are working to develop ways to support regional trading companies, provide assistance to comply with U.S. health and sanitary regulations, improve transportation links, and in general to spur public and private sector development. The measures would include a program of labor skills training, to ensure that investors have access to workers with appropriate skills. Recommendations for action are due in March.

7. MEASURES FOR PUERTO RICO AND THE VIRGIN ISLANDS.

Tab I lists measures to assure that Puerto Rico and the U.S. Virgin Islands will benefit from the CBI, while contributing to its implementation in the region.

FY 1981-83 U.S. BILATERAL ASSISTANCE

TO THE CARIBBEAN BASIN

	FY 1981	FY 1982 OYB	FY 1982 SUPP	FY 1982 TOTAL	FY 1983
Caribbean Basin	471.0	612.5	350.0	912.5	720.5
DA	168.4	211.1	-	211.1	217.6
ESF	143.4	140.0	350.0	440.0	324.0
PL480 I	62.2	88.9	-	88.9	94.0
II	46.5	34.5	-	34.5	26.9
Direct	420.5	474.5	350.0	774.5	662.5
HIG	50.5	138.0	-	138.0	58.0
Indirect	50.5	138.0	-	138.0	58.0

MEASURES FOR PUERTO RICO AND THE U.S. VIRGIN ISLANDS

I. RUM.

To ensure that duty-free treatment of rum from the Caribbean Basin does not reduce U.S. excise tax revenues received by Puerto Rico and the U.S. Virgin Islands, the U.S. will transfer to them the same rate of excise taxes per unit collected on imported rum as on their rum. The formula ensures that imported rum will be treated as rum produced in Puerto Rico and the Virgin Islands for purposes of excise tax payments to them. The legislation will also require the President, in the event the formula is altered to the detriment of Puerto Rico and the Virgin Islands, to take measures to compensate them for any detrimental effect, including the possibility of a snapback in the MFN rate.

USTR negotiators will seek commitments from Caribbean countries that they will continue to supply molasses to Puerto Rico and the Virgin Islands on commercial terms.

II. TAX INCENTIVES.

a. Investment Incentive - The President's Message to Congress forwarding CBI implementating legislation will recognize the Administration's intent to propose the extension of the Accelerated Cost Recovery System (ACRS) and Investment Tax Credit (ITC) to all "Section 936" companies located in Puerto Rico. These firms can pass through the benefits of ACRS and ITC to their mainland parent corporation. Similar benefits will also be proposed for the Virgin Islands.

The benefits of Section 44 of the Internal Revenue Code for research and development will be discussed with Puerto Rico to explore the possibility of extending these benefits to Puerto Rico.

b. Withholding Taxes - Further consultations will take place between Treasury and Virgin Islands' officials on the issue of Virgin Islands' withholding taxes.

III. SAFEGUARDS.

In preparing FTA legislation, we will assure that Puerto Rico and the Virgin Islands have standing to petition under the CBI safeguard mechanism. Injury to a particular region is to be taken into account under the provisions of the 1974 Trade Act.

IV. CUSTOMS.

a. Rules-of-Origin - For purposes of rules-of-origin in the FTA, Puerto Rico and the Virgin Islands inputs will be treated as products of the Caribbean Basin for calculating Caribbean Basin value-added.

b. Duty-free Access for the Virgin Islands - As part of the CBI legislation, the Administration will support amendment of Headnote 3(a) of the Tariff Schedule of the United States to provide duty-free treatment of Virgin Islands exports whose foreign content does not exceed 70 percent of the declared customs value. Currently the maximum foreign content permitted is 50 percent.

c. Duty-free Import of Liquor - As part of CBI legislation, the Administration will propose amendment of the tariff schedule to permit visitors returning from U.S. territories to import duty-free and free of excise tax, an additional liter of locally produced alcoholic beverages.

V. LOCAL TRADE PROBLEMS.

If requested by Puerto Rico, we will consider proposals for assisting industry in Puerto Rico threatened by loss of local market from additional Caribbean imports.

VI. AGRICULTURE.

a. Crop Insurance - The Department of Agriculture will extend to Puerto Rico, through the Federal Crop Insurance Corporation, its reinsurance program no later than mid-1983 provided certain technical problems can be overcome.

b. Price Supports - The Department of Agriculture will extend to Puerto Rico price supports for rice and will consider the possibility of extending to Puerto Rico price supports for all commodities produced in Puerto Rico for which there is a U.S. price support program.

c. Puerto Rican Agricultural Development - The Federal Government, through the Department of Agriculture or other agencies, will provide technical assistance to Puerto Rico upon request for the purpose of improving the productivity of the Island's agriculture.

Technical Assistance will also be given to Puerto Rico upon request in an effort to integrate the Island's agricultural development with that of the Caribbean Basin as a whole.

The Federal Government will also make greater use of the Tropical Agriculture Research Center, located in Puerto Rico, for the purposes of developing and implementing an integrated Caribbean Basin agricultural strategy.

VII. TRANSPORTATION.

a. Air negotiations - The U.S. Government will seek to expand air routes between and through San Juan and foreign countries for American and foreign flag carriers.

In future bilateral air negotiations account will be taken of the vital importance of increasing foreign carrier entry into Puerto Rico. Informal prior consultation between Puerto Rican officials and U.S. negotiators will continue to be undertaken regularly.

U.S. flag carriers should be able to take advantage of San Juan's status as the transportation hub of the Caribbean. From Caribbean nations, the U.S. should seek a liberal entry regime for U.S. carriers between Puerto Rico and Caribbean nations.

These policies should be negotiated with a view to achieving Puerto Rico's objectives, including the establishment of a Canada-Puerto Rico air route and new or additional air routes between Puerto Rico and Mexico; Venezuela; Brazil; and the United Kingdom.

b. Cruise Ships - In the development of its comprehensive maritime policy, the Administration will attempt to develop measures which will reduce restrictions on the carriage of passengers by foreign flag cruise ships between San Juan and other U.S. ports as long as there exist no U.S. flag carriers providing adequate services. Among other possible measures this will include specifically the lifting of current restrictions that limit to 24 hours the amount of time a cruise ship or cruise ship passengers may remain in San Juan.

c. Shipping to Puerto Rico - The Department of Transportation is studying carefully regulations affecting cost of shipping for Puerto Rico, with a view to modifying those regulations where Puerto Rican economic development is being retarded. The DOT is considering legislation to eliminate federal regulation of ocean shipping rates between the mainland and Puerto Rico. Consideration will be given to specific requests from Puerto Rico for the financing of vessels.

d. St. Thomas Airport - The Department of Transportation will continue to work with relevant agencies to provide support for the completion of the airport and will hold discussions on this matter with Virgin Islands' officials.

VIII. AID.

a. Aid Procurement - Aid will make a strong effort to secure material inputs, technical assistance contracting and institutional support from Puerto Rico and the Virgin Islands.

b. Eastern Caribbean Center - As part of the CBI, the Administration will support in FY 1982 the appropriation of $150,000 for an Eastern Caribbean Center for Educational, Cultural, Technical and Scientific Interchange at the College of the Virgin Islands. (Authorization of these funds has already passed the House.)

IX. ENVIRONMENTAL REGULATIONS.

EPA will review, at Puerto Rico's and the Virgin Islands' request, the application of its regulations to the Islands. EPA will endeavor to be more flexible in future application of regulations having a substantial impact on these areas.

X. CRUDE REFINERY FACILITY.

If justified by feasibility studies, the Departments of State and Energy will promote Puerto Rico as a center for refining of heavy crude. These agencies will bring to the attention of the region the possibility of using Puerto Rican facilities for heavy crude refining and the export of lighter crudes or products.

XI. COPPER AND OIL EXPLORATIONS.

The Federal Government will continue to provide to Puerto Rico, where appropriate, technical assistance for the purpose of assisting the exploration and development of copper, oil or other natural resources.

XII. CBI IMPLEMENTATION.

Puerto Rican and Virgin Islands' officials are deeply interested in participating in the design and implementation of the CBI. The U.S. Government has in fact, consulted very closely with these officials on all aspects of the CBI and intends to continue to do so. Puerto Rico and the Virgin Islands' officials will be invited to participate in many of the bilateral discussions involving CBI implementation.

APPENDIX II

Responses to Questions Submitted to Witnesses From the Virgin Islands

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QUESTIONS FOR THE VIRGIN ISLANDS

1. What are the most pressing economic problems in the Virgin Islands today?

The most pressing economic problems facing the Virgin Islands today are insufficient industrial development and insufficient revenues to meet pressing infrastructure needs, such as water and power and the local share of the St. Thomas airport project.

Despite the tax and customs advantages offered to attract businesses to the Virgin Islands, we have not been able to supplant the Goverment of the Virgin Islands as the major local employer. Industry avoids locating in the Virgin Islands because of the high water and power costs, the unreliability of these utilities, and the high shipping costs from the Virgin Islands.

Tourism, our major industry, is suffering the effects of the economic problems facing the mainland, exacerbated by limited access due to our St. Thomas airport runway. Meanwhile, Hess Oil Virgin Islands, our largest private employer, has laid off over 300 persons this year.

We have submitted in detail before this Committee our water distribution and production needs. We have also discussed the airport matter with the Committee, although we have sought our major funding from the Department of Transportation through the relevant House and Senate Committees. The airport is halfway complete, and funding is becoming increasingly difficult to secure.

A) Does the Caribbean Basin Initiative address these problems?

The Caribbean Basin Initiative addresses these problems negatively. By setting up trade and tax incentives for the region, the Virgin Islands stand to lose the competitive edge needed to attract the limited industry we have in the islands. It will be virtually impossible to compete with Caribbean neighbors who are not subject to minimum wage laws, the Occupational Safety and Health Administration, the Environmental Protection Agency and so on, and who, under the Caribbean Basin Initiative have no duties offsetting these marketing advantages. This is clearly apparent in regard to our rum industry.

There is no way to keep the Virgin Islands Rum Industry, Limited (VIRIL) in the islands, with the Caribbean Basin Initiative in place. VIRIL could not hope to compete with unregulated, low wage operations in CBI beneficiary countries, most of which have their own molasses supplies.

As rum is the Virgin Islands industry most directly harmed by the CBI and, as it is the industry which contributes most solidly and effectively to the Virgin Islands Government, I have

concentrated on seeking provisions in the CBI to protect that industry. With the needed additional protections for rum and the Headnote 3(a) increase designed to offset Headnote provisions for CBI beneficiary countries, I have consistently maintained that I will support the CBI as a needed overture by this country to its southern neighbors. Without these protections for the Virgin Islands, we are sacrificed for a foreign policy gesture which will only serve to put us in a battle for economic survival with our neighbors and friends in the Caribbean.

2. How important is the Virgin Islands Rum Industry to the operational budget of the Virgin Islands Government?

As I noted above the proceeds from the Virgin Islands Rum Industry are a solid source of capital on which the Virgin Islands Government can rely. The excise taxes collected on the Virgin Islands rum sold on the mainland are returned to the Virgin Islands in the form of a fund held for the Virgin Islands by the U.S. Department of the Interior. This fund has been used for capital projects and now accounts for approximately 20% of the operating budget of the Virgin Islands.

3. Is the trigger mechanism, built into the CBI, adequate to protect the rum industry?

The trigger mechanism is wholly inadequate. With only a 12% share of the U.S. market, the Virgin Islands rum industry will probably not be able to appeal for relief of injury. The Virgin Islands could appeal only if Puerto Rico, which holds over 80% of the U.S. market, were also injured. This is highly unlikely, and even representatives of Puerto Rico have testified that the Virgin Islands industry is far more vulnerable to duty-free foreign competition because, unlike Puerto Rico, which exports a well-entrenched labelled product, the Virgin Islands exports a highly price-sensitive and commodity-like unaged, unlabelled product.

Secondly, the relief process contained in the bill is expensive and time-consuming. Even if the Virgin Islands industry could appeal, and if any relief were granted, by that time there might be no industry left to save.

Thirdly, relief is subject to the discretion of the President. The same foreign policy considerations that support the CBI could well lead to denial of import relief for the VI rum industry.

4. If Section 104G of the CBI, exempting the Virgin Islands Rum Industry from certain requirements of the water Pollution Control Act, was to be dropped from the bill, would the industry survive?

Under the Water Pollution Control Act, the Virgin Island Rum Industry is required to build a waste treatment plant which will cost at least twice the book value of its existing plant. Even

without the CBI legislation, Virgin Islands Rum Industry Limited would be hard pressed to cover the cost of this plant. With the CBI in place, Virgin Islands Rum Industry Limited would be forced to close its doors rather than attempt to compete at a $4 million dollar disadvantage over foreign businesses whose operating costs are already lower.

5. Questions have been raised about the Virgin Islands subsidizing molasses. Would you comment and are you aware of any beneficiary countries subsidizing molasses or setting prices. Do you see any threat to your molasses supply?

We believe that many Caribbean islands subsize their rum industries in one form or another. A number of those countries are in an excellent position to subsidize rum through molasses sales at below world market prices because of the control their governments have over the sugar industry of which molasses is a by-product, and in some cases, government ownership of the distilleries. In Jamaica, the government owns the Jamaica National Sugar Company, which is majority owner of two distilleries and sole owner of a third. In Trinidad, the government owns sugar plantations and a distillery, and in the Dominican Republic, the government has officially set the maximum price of molasses at significantly less than world market prices. We have information from persons in rum industries in other islands of other subsidies. Naturally, with all the government controls in those islands, it is difficult to prove, but certainly the means and the motivation are there.

Ironically, if the duty is kept on low-valued rum imports to the U.S., thus protecting that small edge of the U.S. market now held by the Virgin Islands, our molasses supply would be less threatened than if the duty were lifted across the board. Lifting the duty on the low end of the market would only encourage foreign producers to shift to this type of product, and drying up molasses supplies to the Virgin Islands would be an obvious tactic to adopt in enhancing their competitive advantage and driving the Virgin Islands rum industry out of that particular market. Leaving the tariff on the low end of the scale product would dissuade foreign producers from shifting to this market and encourage them to concentrate on increasing their percentage hold on the bottled and premium bulk markets they are now serving. This would not be a disincentive to earning additional hard U.S. currency by suppling molasses to the Virgin Islands for markets in which foreign producers are not competing.

6. What is your access to Canada and the EEC? Could you compare that with Jamaica, for example?

Virgin Islands rum, while holding only 12% of the U.S. market, has virtually no share of either markets in either Canada or the EEC due to tariffs and other restrictions. Competing foreign Caribbean rums, are in the main exempt from these,and consequently command those two markets in addition to holding 4%

of the U.S. market.

Canada assesses a tariff of $1.50 (Canadian) per Canadian gallon on VI rum imports.

In the EEC a wide range of tariffs and other restrictions are placed on VI and PR rum imports which are not applicable to rum produced in any former colony of EEC member countries (i.e. our Caribbean competitors.)

It should be noted that Caribbean rum-producing countries place extremely high tariffs on PR and VI rum products. The Dominican Republic charges a tariff of $4.45 (US$) per proof gallon on rum less than 65 proof; $4.92 on more than 65 proof, with a surcharge ranging from 50% to 200%. Jamaica assesses a tariff of $59 per proof gallon on 80 proof or under and $71 on more than 80 proof, with the added prohibition on any imports at all if sufficient rum supplies exist in Jamaica.

7. Could you describe the Virgin Islands-Puerto Rico Rum proposal, what your concerns are, and why you feel that that proposal would improve the CBI?

As stated above, the Virgin Islands primary rum export is a commodity-like product: unaged, unlabelled bulk rum used for pre-mixed drinks, house labelling, etc. It is an extremely price sensitive product and channels of distribution and advertising have far less an impact on sales than cost.

Foreign producers are shipping to the United States primarily bottled rum, or a premium bulk, aged and labelled rum product. They export only neglible amounts (approximately 80,000 proof gallons per year) of the less expensive, non-premium product, and representatives of foreign rum producers have consistently stated before House and Senate Committees that they do not intend to enter the Virgin Islands market.

The amendment proposed by the Virgin Islands would lift the duty on all bottled rum and on all bulk rum valued at more than $3 per proof gallon, with an added 200,000 proof gallons of rum valued at less than $3 per proof gallon allowed to enter annually duty-free. The amendment in effect would allow foreign producers complete duty-free access for all current types of rum shipments, with unlimited expansion opportunities in the bottled and premium bulk rum markets. At the same time, the amendment allows the Virgin Islands industry to remain competitive for its small (12%) share of the U.S. market - its only market.

We believe this amendment is an ideal resolution to the rum issue. Economically it will enhance the marketing potential of foreign rum industries without damage to the U.S. Virgin Islands industry which, through a Congressionally mandated program enacted thirty years ago, plays a unique and vital role in the economy, and indeed, the viability of the territory.

The CBI attempts to address the territory's concern over the potential loss of excise tax revenues by providing for the return of foreign rum excise taxes to Puerto Rico and the U.S. Virgin Islands. However, while this in itself is a tacit admission that the territorial rum industries will indeed be hurt it also has two very obvious drawbacks. First, the bill contains no formula for the distribution of those foreign excise taxes. Even Puerto Rico has stated that the Virgin Islands industry is far more vulnerable to damage under the CBI, and consequently an equitable formula to compensate is crucial. Secondly, if and when the Virgin Islands losses its rum industry, any future Congress would rightly question the return of millions of dollars in rum excise taxes to a territory with no rum industry. It has been our basic contention that the only means of insuring long term maintenance of the excise tax program is maintenance of the Virgin Islands rum industry. This is an unique, symbiotic relationship between government and industry which has worked extremely well over the past thirty years and which should not be jeopardized, particularly at this time.

Politically, the amendment is also sound. The foreign rum producers and governments can rightly claim a political victory in that all its rum exports may enter the U.S. market duty-free. The U.S. citizens of the Virgin Islands will also recognize that the Congress of the United States has acted responsibly and equitably in fulfilling its responsibilities as that body with the plenipotentiary authority over the insular areas and has struck a rational balance between territorial and foreign policy.

It cannot be in the best interests of the U.S. to pit its territory in an unholy rum war with a handful of foreign-owned and multi-national rum distilleries. Over half of the population of the U.S. Virgin Islands traces is roots to these neighboring islands of the Caribbean. We share a common history, and culture. The College of the Virgin Islands is an educational center for the entire area. Our media and telephone links provide close and constant communication with all the islands, and for the people of these islands, the Virgin Islands is the United States. It can only be in the best interests of the United States to keep its territories strong, to enable the U.S. citizens of that territory to play an active and positive role in cementing its excellent relationships with the people and the governments of the area. Nothing could be more damaging than to pit the Virgin Islands in economic battle with its neighbors.

8. Do you feel that the United States is properly and adequately addressing the needs of the English speaking Caribbean?

The CBI, as I noted above, is a gesture. It is necessary to produce the CBI mainly because the political leaders in the region have relied on it as fruit of their alliance with the United States.

The Caribbean Basin Initiative does not, however, address the needs of the Caribbean nations. It is crucial, if we are to succeed in our attempt to foster a solid relationship with our Caribbean neighbors, to follow the CBI with a program designed to help these nations understand what is needed to develop economically and politically.

There is much to be learned here, and while the Virgin Islands is still in the developmental stages itself, it is the most obvious as well as the most capable part of this country to help the struggling nations of the Eastern Caribbean understand what is needed to survive.

9. Has the federal government provided you with the necessary capabilities to strengthen the local economy, develop the infrastructure, and encourage ties with the English speaking Caribbean? If not, what remains to be done?

While the federal government has given us some assistance, the Virgin Islands has not been provided with capabilities sufficient to strengthen our local economy and develop infrastructure. I have repeatedly sought assistance for our water and power projects. Reliable and efficient water and power is crucial to our economy and to the health of the community. The assistance given for local airports has not been sufficient to complete the projects.

I have often reminded the Administration and Congress that the Virgin Islands is looked upon by its neighbors as illustrative of the benefits of affiliation with the U.S. If we fail, so does the United States image in the Caribbean. The CBI formula clearly ignores this admonition.

The Virgin Islands should be used to enhance United States dialogue with the Eastern Caribbean nations. Lip service was paid to such an idea when funds were allocated to the College of the Virgin Islands for the study and planning of an Eastern Caribbean Center for cultural, educational and technical interchange. The proposal for such a Center was made by the Virgin Islands and pursued by us: it clearly does not figure into the Administration's Caribbean Initiative.

The College of the Virgin Islands, however, already draws a large number of its students from the Eastern Caribbean. Furthermore, the development of the Virgin Islands has attracted many of our neighbors, the result being an increased interchange between islands which are already tied by history and culture.

The federal government should focus on the Virgin Islands as the source of its outreach to the Eastern Caribbean nations. The United States needs to look at what kind of help would be most useful to these nations, how best to provide that help, how to

assure that these islands nations will suffer minimal growing pains, and how to make certain that through this assistance the United States is seen as a reliable friend. Our relations with these Caribbean nations are filtered through the one place we have that can empathize with their situation----the United States Virgin Islands.

10. Do you have any concern over the amount of Jamaican rum presently warehoused but not withdrawn? What is your concern?

The Virgin Islands is extremely concerned over the amount of Jamaican Rum presently warehoused in the U.S. In 1979-82, 6.6 million proof gallons of Jamaican rum arrived in the United States. The tariff has been paid on only 2.4 million proof gallons. 4.2 million proof gallons of Jamaican rum--upon which no tariff has been paid--are sitting in warehouses, waiting to flood the U.S. market the moment the tariff is removed. Put another way, in 1978, the tariff was paid on nearly all the Jamaican rum that arrived in the United States. Very little was put in warehouses. By 1982, more than 2/3 of the Jamaican rum arriving in the United States was being put in bonded warehouses. In 1982, the Virgin Islands provided less rum than Jamaica has in storage in warehouses in the United States.

11. How important are the airports on St.Thomas and St. Croix to the Virgin Islands? Are you satisfied with the reponses of the Administration to my earlier questions?

The airports on St. Thomas and St.Croix are vitally important to our tourism-based economy. However, until the runway extension is completed on St. Thomas and we can bring in the larger, more fuel efficient aircraft, air fares to the Virgin Islands will continue to be extremely high in cost and low in availability. Extension of the runway on St. Croix from the current 7000 feet to 10,000 feet would accommodate the larger airbusses and stretchjets and enable us to directly tap European tourist markets for the first time. With the extension of the convention tax benefit to our tourism competitors in the Caribbean, enhancing our attractiveness as a tourism destination with low air fares and easy flight availability will become critically important.

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Caribbean Basin Initiative

The above referenced Senate hearing of the Committee on Energy and Natural Resources was printed without the committee assigned publication number.

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